TAX INCENTIVES TARGETED TO DISTRESSED AREAS

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

NOVEMBER 17, 1983

Serial 98–57

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE
31-275 O WASHINGTON : 1984

H781-40

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TAX INCENTIVES TARGETED TO DISTRESSED AREAS

THURSDAY, NOVEMBER 17, 1983

House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met at 10:03 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

[The press release announcing the hearing follows:]

[Press Release of November 2, 1983]

Hon. Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, House of Representatives, Announces Hearings on Tax Incentives Targeted to Distressed Areas

The Honorable Dan Rostenkowski (D., Ill.), Chairman of the Committee on Ways and Means, U.S. House of Representatives, today announced the Committee will hold a public hearing on proposals to target existing or proposed tax incentives to distressed areas. The hearing will be held on Thursday, November 17, 1983, at 10:00 a.m., in the Committee's main hearing room, 1100 Longworth House Office Building. The Committee requests testimony on the issues raised by proposals to apply special, preferential income tax rules to economically distressed areas. In addition to testimony related to these broad issues, testimony will be received on three bills: H.R. 1955, The Enterprise Zone Employment and Development Act of 1983, the Administration's proposal introduced by Mr. Conable (R., N.Y.), et al.; H.R. 1735, The Community Assistance and Revitalization Act of 1983, introduced by Mr. Mitchell (D., Md.) et al.; and H.R. 2375, The Enterprise Development and Industrial Revitalization Act of 1983, introduced by Mr. Nowak (D., N.Y.) and Mr. Williams (R., Ohio). These bills would provide a variety of tax incentives designed to stimulate economic activity in selected, economically depressed areas. The Committee will only receive testimony on the revenue provisions of these bills. The Committee expects to receive testimony from representatives of the Administration, invited witnesses, representatives of State and local governments and the public.

In announcing the hearings, Chairman Rostenkowski remarked that, "I have been urged by Members of Congress, representatives of the Administration, mayors, governors and others, to conduct a hearing on enterprise zone proposals. As a Member of Congress representing an urban area characterized by persistent economic problems, I understand the need for the Federal government to assist in the redevelopment of distressed areas. The purpose of this hearing is to examine critically the question of whether or not tax provisions can be used to accomplish the redevelopment of particular geographic areas and, if so, whether any particular proposal is desirable in light of massive Federal deficits."

BACKGROUND

In general, under present law, the provisions of the Internal Revenue Code apply uniformly throughout the United States. Special rules apply to income subject to U.S. tax but received from foreign sources. Similarly, certain tax incentives such as the investment credit and accelerated depreciation only generally apply to property used within the United States. Moreover, special rules apply with respect to the possessions of the United States. Only relatively minor provisions of present law establish different tax rules with respect to specific geographic areas within the United States. For example, residents of Federally designated disaster areas are able to file amended returns in order to receive an early tax refund as a consequence of having suffered a casualty loss and under mortgage subsidy bond programs special rules apply in targeted areas, i.e., low-income census tracts and "areas of chronic economic distress."

Proposals have been made in recent years to target the use of tax-exempt industrial development bonds to economically distressed areas and to provide new tax incentives for such areas.

ISSUES

Any proposal to target tax incentives to particular geographic areas raises fundamental questions of tax policy and administration. Some of these issues are as follows and witnesses are requested to address them:

(1) How should targeted, distressed areas be identified and defined?

(2) What tax incentives are most likely to aid in the revitalization of a distressed area?

(3) How should the revenue implications of proposals to provide tax incentives for distressed areas be assessed?

(4) What are the relative advantages and disadvantages of tax incentives as compared with direct spending programs in addressing the problems of distressed areas?

(5) Should the use of certain industrial development bonds be limited to distressed areas?

(6) Is it fair to have special, preferential tax rules apply in a limited number of distressed areas?

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Individuals and organizations interested in presenting oral testimony before the Committee must submit their requests to be heard in writing no later than Thursday, November 10, 1983, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515.

In view of the limited time available to hear witnesses, the Committee will not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance will be encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

It is urged that persons and organizations having a common position make every effort to designate one spokesman to represent them in order for the committee to hear as many points of view as possible. Time for oral presentations will be strictly limited with the understanding that a more detailed statement may be included in the printed record of the hearing. This process will afford more time for members to question witnesses. In addition, witnesses may be grouped as panelists with strict time limitations for each panelist.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Committee are required to submit 200 copies of their prepared statements to the Committee office, room 1102, Longworth House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to comply with this requirement may result in the witness being denied the opportunity to testify in person.

Each statement to be presented to the Committee or any written statement submitted for the printed record must contain the following information:

(1) The name, full address, and capacity in which the witness will appear, as well as a telephone number where he or his designated representative may be reached;

(2) A list of any clients or persons, or any organization for whom the witness appears; and

(3) A topical outline or summary of comments and recommendations.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons submitting written statements for the printed record of the hearing should submit at least six (6) copies by the close of business, Wednesday, November 23, 1983, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish

to have their statements distributed to the press and the interested public, they may provide 100 additional copies for this purpose to the Committee office before the hearing begins.

Chairman ROSTENKOWSKI. The committee will come to order.

Today's hearing focuses on the possible use of tax incentives to encourage redevelopment of economically distressed areas. These proposals come at a time when many programs of direct Federal assistance are being eliminated or sharply curtailed. It is a time of massive Federal deficits.

Those of us who represent central city districts know and understand the need to revitalize distressed urban areas. We are also learning of substantial progress that has been made in many as a result of cooperative efforts between the public and private sectors.

The proposals before us today call for designating certain geographic areas as enterprise zones and applying preferential tax rules to these zones. Proposals such as these raise several important tax policy issues. First, can economically distressed areas be identified with sufficient precision that the results would generally be regarded as fair? Two, will economic activities in the aggregate be increased if such proposals were enacted, or would activity simply be moved into one neighborhood at the expense of another? Three, how can the revenue losses from such proposals be measured and controlled? I hope that today's witnesses will address these fundamental questions.

Tomorrow, the House will be considering the Tax Reform Act of 1983, H.R. 4170.

Mr. CONABLE. We hope.

Chairman ROSTENKOWSKI. One of its provisions establishes the principle of State-by-State volume caps on industrial development bonds. The committee invites testimony on the feasibility of targeting the use of IDB's toward distressed areas within the framework of such a cap.

Mr. Conable, do you wish to make an opening statement?

Mr. CONABLE. Mr. Chairman, thank you.

There has been a rumor around that the administration is not really interested in enterprise zones and that because of this lack of enthusiasm we have been justified here in delaying consideration of this very interesting proposal.

I wish to note, Mr. Chairman, that there are three Cabinet members—not one, not two, but three Cabinet members—testifying at the beginning of this long delayed hearing, and from that I would judge that there is at least a modest administration interest in this proposal.

I am particularly pleased to see three distinguished members of the President's Cabinet supporting one of the centerpieces of his program. I think it is time that we got at it.

Mr. Chairman, I have a rather extensive opening statement here that I would like to have printed in the record.

Chairman ROSTENKOWSKI. Without objection.

[The statement of Mr. Conable follows:]

STATEMENT OF HON. BARBER B. CONABLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I am pleased that the Committee is holding this hearing on Enterprise Zone legislation. I would have preferred an earlier hearing, but this one is welcomed, nonetheless.

The legislation under review generally is designed to provide regulatory relief, and an approximate mix of tax incentives, to encourage businesses to undertake the revitalization of a limited number of economically distressed areas of the country. An underlying concept is that we should, in this instance, put aside direct federal subsidies in favor or a program that creates an environment conducive to job creation and economic revitalization. The legislation would create an experimental program, within a limited number of zones. It is designed to complement existing economic development tools, and would give the Congress a chance to make sure the approach is absolutely correct before a more massive program is established.

The basic enterprise zone proposal has been advocated strongly by President Reagan. It is no longer in the early formative states. Since orginially proposed, it has been extensively debated in public forums, has been discussed in Senate hearings three times, and has been passed by the other body. In the process, the original concept has been refined. The legislation now before us includes a number of changes to assure greater cost efficiency and to assure that persons living in economically distressed rural areas truly will benefit.

The enterprise zone idea has extensive bipartisan support. There is a widely shared belief that traditional approaches to dealing with our nation's economically distressed areas have not solved fundamental problems. Helping the poor through subsidies and traditional central planning techniques has addressed the effect on individuals of economic decline, but it has accomplished little to eliminate the cause of that decline.

Sharing with those in need was practiced in our society long before Federal involvement. Since the central government has been involved, we have relied increasingly on massively bureaucratic efforts to solve all the problems of the needy. It is clear that we will never abandon these more traditional programs, nor should we do so. But we should do something to reduce individual dependency on those programs—a phenomenon that ironically, has grown in proportion to the assistance offered.

The enterprise zone approach is very non-traditional. It is designed to require a significant state and local government commitment before there is any Federal involvement. Most importantly, in order for a business to be entitled to its full tax benefits, a business also must make commitments—long term commitments to economic redevelopment in distressed areas and to the employment of individuals in those areas. To the extent that a business fails in its commitments, the tax benefits will be recaptured by the federal treasury.

There are other positive revenue aspects of this approach. Increased business activity and job creation in designated enterprise zones should, in the long run, increase federal income from those zones and concurrently decrease the costs of welfare and unemployment compensation programs. Also over the long run, adoption of enterprise zones is likely to increase property values and thus boost state and local tax collections from these areas.

The enterprise zone approach was formulated with the specific aim of providing jobs for the chronically unemployed. It also was designed to give these persons the means not only of fulfilling desires beyond those for food and shelter, but of fulfilling them without having to rely on the federal government. This approach differs from more traditional programs in that there is little risk the jobs will not be there.

There is no guarantee of perfection, of course, in implementation of the enterprise zone concept. To some extent, it would cause some shifting of economic benefits from one area to another. It also would require the administration to make some difficult decisions, such as selecting, and drawing boundaries for, 75 areas initially to be designated.

We never will move closer to perfection in this approach without testing it. The zones originally designated under this approach will have to be studied intensely to determine precisely which parts of the program are successful and which parts will need modification.

This legislation, perhaps more than any other we have had before us in recent years, has the potential to life individuals up to the mainstream en masse. I am glad we have arrived at the hearing stage, at long last, and I look forward to the guidance we will receive for the witnesses today.

Mr. **Conable**. It is a nontraditional approach that we are suggesting in the enterprise zone legislation which, incidentally, now has more than 230 cosponsors in the House, evincing a modest interest in our membership as well as in the administration. It is designed to require significant State and local government commitment before there is any Federal involvement.

More importantly, in order for a business to be entitled to full tax benefits, the business also must make commitments, long-term commitments, to economic redevelopment in distressed areas and to the employment of individuals in those areas. To the extent that a business fails in its commitments, the tax benefits will be recaptured by the Federal Treasury. It will not be an inexpensive program, but at the same time it will harness the best creative impulses of the Federal system; and from that point of view I believe it to be an extremely significant program.

Mr. Chairman, we are grateful to you for having this hearing. We regret the timing is unfortunate in terms of the end of the first session. We know there is going to be some problem of committee attendance today, with so many things pending on the floor and so much controversy over the tax bill, of which you and I are very well aware. But we know that the presentation of this evidence on enterprise zones will have a significant impact and that the record will be of great interest to the Members as we prepare our agenda for the next session of the Congress.

Thank you, Mr. Chairman, and we appreciate your holding these hearings.

Chairman **Rostenkowski**. The Chair would like to make an observation. As is our custom, we will have rollcalls on the House floor. I hope that our guests will understand what our problem is. I know that the members of the President's Cabinet have other commitments and want to make their statements. I want the witnesses who are scheduled to testify to understand that there will be Members coming in and out of the hearing because Mr. Conable and I will have to leave to make the rollcall.

With that, I want to welcome to the committee three outstanding members of the President's Cabinet.

Our leadoff witness is Treasury Secretary Regan. If you will present your testimony, the committee is ready to receive it.

STATEMENT OF HON. DONALD T. REGAN, SECRETARY, DEPARTMENT OF THE TREASURY, ACCOMPANIED BY RONALD A. PEARLMAN, DEPUTY ASSISTANT SECRETARY FOR TAX POLICY

Secretary **Regan**. Thank you, Mr. Chairman.

I am appearing before you today, along with my distinguished Cabinet colleagues, to discuss the Federal tax features of the administration's enterprise zone program as contained in H.R. 1955, the Enterprise Zone Employment and Development Act of 1983.

The administration's enterprise zone program is an experimental initiative designed to relieve economic distress in inner cities and rural towns. The program is structured to create a free market environment in depressed areas through the removal of Government burdens. This should create and expand economic opportunities within the zones, leading to an expansion of economic activity and the creation of jobs within these areas.

While the Federal tax incentives are an important part of the program, the success of the enterprise zone program will depend largely on contributions made by the State and local governments through improved services and through relief of local taxes, regulations, and other burdens that may inhibit economic activity in these designated areas.

The removal of these burdens will create an expanded economic opportunity within the zone areas, allowing business firms and entrepreneurs to undertake new investment and to create jobs particularly for disadvantaged workers.

The enterprise zone program includes four basic elements: tax reduction at the Federal, State, and local levels to lessen the economic impediments to business investment and employment; regulatory relief at the Federal, State, and local levels to reduce costly burdens that are unnecessary to legitimate health and safety concerns; new efforts to improve local services, including experimentation with private alternatives to provide these services; neighborhood level involvement of residents enabling their participation in the economic success of their zones. By combining all these elements, the program will create the right economic environment for improvement in our Nation's distressed areas.

With respect to the Federal tax features of the program, existing Federal tax policies often discourage potential entrepreneurs from risking time and money in ventures that might create jobs. A business owner who thinks that taxes will consume too great a percentage of his income will not invest in new production. This is especially true in decayed inner cities and poor rural communities where the investment risk is especially great, and where my taxes only magnify already steep barriers to economic development.

The Federal tax changes in the President's enterprise zone program would ameliorate existing problems for local businesses by giving zone entrepreneurs the financial incentives to open new businesses, expand existing operations and put neighborhood residents to work.

For example, employers would receive a 10 percent tax credit for all payroll increases given to zone employees. They would also receive an additional 50 percent tax credit for wages paid to disadvantaged individuals hired after designation of the zone. This 50 percent tax credit, which would be phased out after 7 years, would give employers a major incentive to hire, train, and promote disadvantaged persons.

Other tax incentives would encourage business owners to upgrade their properties, thereby enhancing the quality of the neighborhood. Improvements to commercial, industrial, or rental structures would be eligible for a 10 percent tax credit. All zone property and capital investments would also be exempt from the capital gains tax so that owners creating the largest numbers of jobs, providing the best services, and improving their firms the most would be rewarded when they sold their businesses.

Incentives would also be provided to the employees themselves. Employees would receive a 5 percent income tax credit for working in the zone. The credit would increase take-home pay to qualified employees who work in the zone. This benefit will be important to attract to the zone people with job skills necessary to the success of the zone firms.

Another provision of the administration's program would insure that tax-exempt industrial development bonds would continue to be available to finance enterprise zone property even if the use of such bonds were terminated elsewhere. These tax-exempt industrial development bonds would be used to provide low-cost financing for new zone businesses.

While Federal tax incentives are important, enterprise zone projects would not succeed without strong State and local contributions. In many areas, municipal and State taxes and regulations are as much an impediment to economic development as those of the Federal Government. Therefore, the lifting of these State and local burdens would be crucial elements in the success of the enterprise zones.

In conclusion, Mr. Chairman, the administration's enterprise zone program represents a fresh approach for dealing with the problems of economically distressed areas by spurring private economic activity. We are confident that the total program contains the necessary ingredients to make it a complete success. I urge you to lend your support to our efforts.

[The prepared statement follows:]

STATEMENT OF HON. DONALD T. REGAN, SECRETARY, DEPARTMENT OF THE TREASURY

Mr. Chairman and members of the committee, I am appearing before you today along with my distinguished Cabinet colleagues to discuss the Federal tax features of the Administration's enterprise zone program as contained in H.R. 1955, The Enterprise Zone Employment and Development Act of 1983.

The Administration's enterprise zone program is an experimental initiative designed to relieve economic distress in inner cities and rural towns. The program is structured to create a free-market environment in depressed areas through the removal of government burdens. This should create and expand economic opportunities within the zones, leading to an expansion of economic activity and the creation of jobs within these areas. While the Federal tax incentives are an important part of the program, the success of the enterprise zone program will depend largely on contributions made by the State and local governments through improved services and through relief of local taxes, regulations, and other burdens that may inhibit economic activity in these designated areas. In addition, the success of the program depends upon the involvement of private organizations. Efforts will be made to experiment with private firms providing traditional city services, and more involvement by private-sector neighborhood organizations will be encouraged.

Since the enterprise zone concept is designed to create a free-market environment for business, the intent is not to foster a particular kind of business activity. The Federal tax features of the Administration's program therefore contain strong, balanced incentives for the creation of new jobs and capital formation in the zones through employment and investment credits and other tax incentives. On the whole, the effect of the Federal tax package offered by the Administration's program will be to reduce significantly the taxes payable by employers on income generated by activities in designated zones, eliminate entirely the capital gains tax on certain types of property used primarily within the zones, allow the continued use of tax-exempt small issue industrial development bonds issued with respect to zone activities, and provide income tax relief for qualified employees of firms doing business within a designated zone.

I first will outline the major Federal income tax incentives of the Administration's enterprise zone program. Next, I will discuss several important issues of tax policy and administration raised by a program designed to target Federal income tax incentives to specially designated areas of economic distress.

I. OUTLINE OF FEDERAL TAX INCENTIVES IN ADMINISTRATION'S PROGRAM

A. Credits for employers

There are two separate payroll credits for employers doing business in the zones. One is designed to encourage the creation of new employment generally, and the other is a targeted incentive to encourage the hiring and training of certain disadvantaged individuals.

These payroll credits will be nonrefundable and will be available only with respect to "qualified employees," *i.e.,* those who perform 50 percent or more of their services within an enterprise zone and at least 90 percent of whose services are directly related to the zone business. The amount of these credits will reduce the employer's deduction for wages. The credits will phase out during the last 4 years of a zone, declining by 25 percent per year.

1. Credit for increased enterprise zone employment.—The general payroll credit for enterprise zone employers will be equal to 10 percent of their "qualified increased employment expenditures." This is the amount by which the payroll for qualified employees in any taxable year exceeds the payroll for the base period, which is generally the 12-month period prior to zone designation. Qualified wages are limited to 2½ times the FUTA wage base (currently $7,000) per qualified employee. Thus, the current maximum credit for qualified increased employment expenditures will be 10 percent of each qualified employee's wages up to $17,500, or $1,750 per employee.

The 10-percent credit is designed to attract labor-intensive business activities to the enterprise zone areas and encourage firms already operating within those areas to expand. With a cap of $17,500 on wages to which the credit applies, the incentive is focused on jobs for unskilled workers and those with some training but still in the lower middle income brackets.

The credit is available to all employers for the qualified workers they employ within the zones, regardless of how many workers they employ elsewhere or what business activities they engage in outside of the zones. The credit will apply to wages paid by existing firms to net additional workers, representing an increase in the firm's work force, subject to the annual maximum wage cap per worker. The credit also will apply to increased wages paid to existing workers and wages paid to replacement workers above the total sum of wages paid to the former workers, all subject to the maximum annual wage cap per worker. However, the credit generally does not apply to the existing payroll of an existing business within a zone at the time it is so designated, nor does it apply to a worker hired by such a firm to replace a former, pre-zone worker making the same wage.

As an example of how the credit is to work, assume that in a 12-month period prior to zone designation an employer employs two persons, A and B, at an annual salary of $12,000 each in an area which is to be designated as an enterprise zone. Since the employer's $24,000 pre-zone payroll is within the $17,500 per employee limit, that amount represents the base period wages. If after zone designation the employer gives each employee a raise of $1,000 per year, the employer's qualified payroll is $26,000 and its qualified increased employment expenditures are $2,000, qualifying it for a credit of $200. If in the next year the employer gives A a $7,000 raise (to $20,000), B a $2,000 raise (to $15,000), the employer's qualified payroll would increase to $41,500 ($17,500 of the $20,000 paid to A, $15,000 paid to B, and the entire $9,000 paid to C). This exceeds the $24,000 base period wages by $17,500, and the employer qualifies for a credit of $1,750.

2. Credit for employment of disadvantaged individuals.—In addition to the general payroll credit, enterprise zone employers will also be eligible for a special credit for wages paid to qualified employees who are disadvantaged individuals. This credit will be 50 percent of wages paid (without limit) to each disadvantaged worker during each of the first 3 years of employment, declining by 10 percent per year thereafter. On the day such individuals are hired, the individuals must have received (or applied in writing for) a certification from a designated State employment security agency that such individual falls within one of the qualified categories.

This special credit is the strongest tax incentive ever provided for the hiring of disadvantaged workers. The 3-year duration and the phaseout will provide the employer with sufficient time to undertake a long-term training program addressed to the needs of the most disadvantaged workers. The definition of disadvantaged workers for purposes of this credit is focused on low-income and hard-to-employ individuals. The categories of disadvantaged individuals include:

(1) Economically disadvantaged individuals. These are persons who are members of a family that had an annual income equal to or less than that which an eligible family with no income would receive in food stamps plus AFDC benefits;

(2) General assistance recipients. These are individuals who are, within 60 days prior to hiring, receiving assistance under a State or local program that provides general assistance based on need and consists of money payments;

(3) Eligible AFDC recipients. These would include individuals qualifying for financial assistance under Part A of Title IV of the Social Security Tax Act who have received such assistance during the 90-day period immediately preceding the hiring date.

The credit will be available to all employers for the disadvantaged workers they employ within the zones, regardless of the number of workers or amount of business conducted elsewhere. Additionally, the credit will apply only to disadvantaged workers hired after designation of the zone in which they are employed. These workers do not have to represent net additional workers or an increase in their employer's work force. The credit therefore will not apply to the past payroll of an existing business in a zone, but will apply, for example, to the replacement with disadvantaged workers of workers lost through attrition. Since the credit is intended to encourage the training and permanent employment of these disadvantaged individuals, the credit, with certain exceptions, generally will be recaptured if an individual is dismissed or fired within 9 months after being hired.

B. Employee credits

In addition to the regular and special payroll credits, and enterprise zone employer's payroll costs will be reduced by the allowable employee credit. An employee working in an enterprise zone will be entitled to a nonrefundable credit equal to 5 percent of wages paid for services performed within the enterprise zone, up to 1½ times the FUTA wage base (currently $7,000). Thus, the current maximum credit will be 5 percent of $10,500, or $525. This credit will not be included in taxable income.

The tax credit will increase take-home pay to qualified employees who work in the zone. Such a benefit will be important to inducing workers to accept employment within the zones that may initially be somewhat undesirable places to work. The credit will phase out during the last 4 years of a zone, declining by 25 percent per year.

C. Investment tax credit for enterprise zone property

As I mentioned earlier, the Federal tax incentives contain not only strong incentives for labor-intensive businesses, but also provide stimulus for capital investment in the zones through special investment tax credits and a capital gains exclusion.

With respect to tangible depreciable property used in the active conduct of a trade or business in an enterprise zone, a nonrefundable investment tax credit will be provided in addition to the regular investment tax credit. An additional 3-percent credit will be provided for property currently within the 3-year ACRS property class and an additional 5-percent credit will be available for all other depreciable tangible personal property. The 3- and 5-percent credits basically increase the regular investment tax credit by 50 percent. To be eligible for the credit, the personal property must be used predominately within the enterprise zone in a trade or business conducted in the zone. This will prevent the taking of the credit for highly mobile capital with only superficial connections to the zone.

With respect to real property, to encourage the development of commercial and industrial structures in zone areas, a 10-percent credit is provided for new construction and reconstruction of buildings in an enterprise zone after designation. The basis in real property will be reduced by the amount of the credit claimed.

The credits will apply only to capital investment made in a zone after it is so designated. Existing businesses in the zones will not receive any tax benefit for their past investment. These businesses will, however, be able to take the credit for all new investments, whether to replace worn out capital currently in use or to increase capacity. Property that is sold or removed from an enterprise zone will be subject to a partial recapture of the credit equal to the percentage derived by dividing the number of years the property was used by the taxpayer by the life of the asset for earnings and profits purposes.

D. Capital gains exclusions

The favorable tax treatment accorded capital gains within enterprise zones should stimulate investment in the zones by real estate developers and by entrepreneurs and venture capitalists seeking to start and build up new businesses. This should attract to the zones new, small businesses with substantial growth potential. More generally, the incentive should encourage capital investments within the zone areas.

Specifically, qualified enterprise zone capital gains will not be subject to tax. A qualified enterprise zone capital gain is defined as a long-term capital gain from the sale of qualified property which is properly allocable only to periods during which the property is qualified property. Qualified property means tangible personal property and real property used by the taxpayer predominantly in the active conduct of a trade or business in an enterprise zone. Qualified property also includes an interest in a corporation, partnership, or other entity, if for the 3 most recent taxable years of the entity ending before the date of disposition, the entity conducted a qualified business. A qualified business is an active trade or business conducted within an enterprise zone, with respect to which at least 80 percent of the gross receipts were attributable to such active conduct of a trade or business and substantially all the tangible assets of which are located within an enterprise zone.

Special rules are provided that are designed to curtail the potential for abuse in this area. For example, gain from the sale of an interest in a qualified business will not qualify for exclusion to the extent it is attributable to: (1) any property contributed to the qualified business within the previous 12 months, (2) any interest owned by a qualified business in any other business that is not a qualified business, and (3) any other intangible property owned by the qualified business that was not created as part of an active trade or business within an enterprise zone after designation of the area as an enterprise zone.

These special capital gains provisions will continue to apply after zone designation lapses until the first time each item of otherwise qualified property was sold or exchanged. This would assure investors that they will be able to receive the benefit of this incentive and avoid a rush to sell zone property when the end of the zone period approaches.

E. Small issue industrial development bonds

In addition to the special investment tax credits and the exclusion of qualified enterprise zone capital gains, the Administration's program will extend the tax exemption provision for interest from small issue industrial development bonds used to finance enterprise zone property. The general tax exemption provision for small issue industrial development bonds is now scheduled to expire with respect to all bonds issued after the end of 1986. H.R. 1955 will remove this sunset date for the entire period during which an area is designated as an enterprise zone. H.R. 1955 also provides that the provision of present law that restricts the cost recovery deductions for property financed with tax-exempt bonds will not apply to enterprise zone property eligible for the additional investment tax credits described above.

F. Revenue estimates

Because we are not certain of when the 75 zones will be designated or of their size and characteristics, the revenue estimates were based on representative zones. The revenue estimates therefore can be expected to change as the zones are actually designated by HUD. Also, the revenue costs increase in future years as the number of zones and business activity within each zone increase. The projected revenue losses for the phasing in of the 75 zones over the next several years are:

[In billions of dollars]

Fiscal year:	
1984	−0.1
1985	−.4
1986	−.7
1987	−.9
1988	−1.0

II. ISSUES OF TAX POLICY AND ADMINISTRATION

I would now like to discuss several issues of tax policy and administration that are raised by any program that targets Federal tax incentives at specially designated areas of economic distress.

A. Identifying enterprise zones

The Administration's enterprise zone program identifies and selects enterprise zones through a process requiring nomination of areas by State and local governments, satisfaction of various objective criteria in establishing that areas suffer from pervasive proverty, unemployment, and general distress and consideration of the strength of State and local government commitments to create an environment conducive to the growth of private enterprise, job creating, and area-wide economic revitalization. We believe that both the process and the substantive criteria contained in H.R. 1955 should ensure effective targeting of Federal tax incentives to areas of economic distress likely to be revitalized by joint efforts of State and local governments and private businesses and organizations.

B. Effectiveness of Federal tax incentives targeted for enterprise zones

The Federal tax incentives of the Administration's enterprise zone program are designed to encourge the formation of new business and expansion of existing enterprises in areas of economic distress. To this end, the program contains strong, balanced incentives for job creation and labor intensive businesses, as well as incentives for new capital investments within the zones. The various employment and investment tax credits and capital gains exclusions are targeted at expansion in qualified employment or investment beyond levels existing at the time a zone is designated. Moreover, the tax incentives will apply only with respect to a business that meets certain requirements for activity and location in a zone.

We believe the Administration's program contains the appropriate type and mix of tax incentives targeted for job creation and new capital investment. Other tax preferences, such as capital gains rollover provisions for excluding gain on the sale of property located outside the zone and current expensing for purchasing of stock in new area businesses are less effective means of encouraging the desired economic activity in the zones. These provisions would also be more difficult to police, resulting in adverse revenue effects.

C. Assessing the revenue implications of enterprise zone tax incentives

As mentioned above, our revenue estimates are based upon assumptions as to economic and demographic characteristics of representative zones. Obviously, once zones are designated, revenue estimates can be made with greater precision.

With respect to the general issue of assessing revenue implications for designated enterprise zones, implications should be assessed by consideration of the type and extent of new economic activity expected to be induced by the Federal tax incentives and State and local commitments to the growth of area businesses. Our revenue estimates are based on estimates of likely economic growth in the zones over the five-year budget period. Secondary feedback effects on economic variables, such as nominal GNP, direct outlay programs, and hence on Federal budget balances, are not included in revenue estimates. Obviously, our revenue estimates do not take into account any effects on local tax revenues.

D. Advantages of tax incentives

The Administration's enterprise zone tax incentives are structured so as not to predetermine private business decisions. Making available tax incentives to all businesses in an enterprise zone ensures the most economically efficient expansion of business activity and job creation in economically distressed areas.

E. Use of industrial development bonds

The Administration's enterprise zone program includes a provision removing the December 31, 1986 expiration date for tax-exempt small issue industrial development bonds used to finance enterprise zone property. Removal of the expiration date for this discrete use of small issue industrial development bonds is necessary since enterprise zones are to be designated for 20 years followed by a four-year phase-out period.

F. Limited number of enterprise zones

The Administration's enterprise zone program is an experimental program and for that reason is limited to 75 zones. We believe it is fair to limit the application of Federal tax incentives to a limited number of enterprise zones so that experience can be developed under the program.

III. CONCLUSION

The Administration's enterprise zone program represents a fresh approach for dealing with the problems of economically distressed areas by spurring private economic activity. We are confident that the total program contains the necessary ingredients to make it a complete success and I urge you to lend your support to our efforts.

Mr. GUARINI [presiding]. Thank you very much, Mr. Secretary, for a fine statement on a crucial program.

I would like to call on the Honorable Malcolm Baldrige, Secretary of the U.S. Department of Commerce.

Welcome, sir. We appreciate your appearing. You may proceed.

STATEMENT OF HON. MALCOLM BALDRIGE, SECRETARY OF COMMERCE

Secretary **Baldrige**. Mr. Chairman and members of the committee: I am pleased to appear before you in support of H.R. 1955, a bill that provides a sensible method for establishing enterprise zones. The Congress has been discussing the various enterprise zone bills for over 3 years, and I hope we can finally see some movement. You have a good bill before you. I urge you to report it as quickly as possible.

The President's economic recovery program has generated a robust recovery. We now expect a real GNP growth rate of about 6.5 percent for 1983. Since last December, the program has generated over 2.9 million jobs. It has cut inflation drastically to 3.7 percent through September of this year. While this is great news for the economy as a whole, there are still many distressed areas in our towns and cities where economic growth is stagnant or nonexistent, and practical solutions are needed that will help them share in the recovery.

The enterprise zone proposal is the type of practical solution they need. It doesn't try to impose a program run from Washington. Instead, it tries to create the kind of environment that best stimulates economic revitalization and job creation—particularly for disadvantaged workers and persons who have been out of work for a long time. It does this two ways: First, by removing regulatory, tax, and other burdens which discourage would-be entrepreneurs from establishing or expanding their businesses in these areas; second, by relying on the combined efforts of the Federal Government, State and local governments, and the private sector.

It takes this approach for several reasons. The most important is that there is no one solution for revitalizing all areas. Many factors influence business decisions. These include taxation, the availability and quality of municipal services and facilities, the level of regulation and cost of meeting local codes and ordinances, and the general business climate. The enterprise zone proposal recognizes this fact and requires the State and local governments to design a comprehensive course of action.

Because the problems faced by employers and employees in different zones will undoubtedly vary, a workable proposal must be flexible. Instead of imposing detailed requirements on States and local governments, H.R. 1955 gives them breathing room to design a program which will work in their particular zone. It assumes that they—not Washington—know what is best for them. Depending on their analysis of their problems, it lets them select a course of action which can include: a reduction in State and local tax rates and fees; an increase in the level of local services within the zone; a reduction in the various governmental requirements applying in the zone; and greater involvement of the private sector, neighborhood associations and other groups in the zone program, by actions such as a commitment to provide jobs, training, or other forms of assistance to zone employers, employees, or residents. The Federal Government also plays a role. The Federal tax incentives included in the proposal will make investments in enterprise zones more attractive. The elimination of capital gains taxes on qualified properties and the additional tax credits for capital investments in an enterprise zone will justify business decisions that can revitalize a zone. The income tax credits for hiring disadvantaged workers and for qualified zone employees will help to encourage labor-intensive businesses to locate in the zones and to encourage hiring and training of workers. The increased ability to carry over unused tax credits should also help.

In short, the ability to generate new economic activity to counter the effects of blight and lack of jobs in an enterprise zone will ultimately depend on the strength of the overall enterprise zone package. A strong commitment by the State and local governments and local groups to devise a program to lower the cost of doing business in an enterprise zone is essential. The addition of the Federal incentives will enhance their efforts.

Will the zone concept succeed? I am sure we will discover that the approaches taken by some State and local governments will be more successful than others. One of the merits of the enterprise zone proposal is that it will allow us to conduct new experiments in economic development to see what works. Given the enormity of the problems confronting some of our towns and cities, it is time to get the experiment underway.

Before I conclude, I would just like to add a note that my home State of Connecticut was the first State to pass enterprise zone legislation for the State itself. They have started several projects, a great many, and the appearance right now is that the initial enthusiasm is high and I think we will see some results from that before the year is out.

Thank you, Mr. Chairman.

Mr. **Guarini**. Thank you very much, Mr. Secretary.

The Honorable Samuel Pierce, Secretary of the U.S. Department of Housing and Urban Development.

We welcome you, sir.

STATEMENT OF HON. SAMUEL R. PIERCE, JR., SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary **Pierce**. Mr. Chairman, I will submit a more detailed statement for the record, but I would like to make some comments at this time.

Mr. Chairman, I am pleased to testify on behalf of the Enterprise Zone Employment and Development Act of 1983, H.R. 1955. I want to encourage this committee and the Congress to take favorable action now on this bill. It is designed to offer additional support to our cities and towns in revitalization of their most distressed areas.

Its purpose is both to retain and create jobs in these areas, particularly for their long-term unemployed residents, and to redevelop and revitalize the areas themselves.

Economic recovery and the creation of jobs calls for action and leadership at all levels of government. This requires a broad-based constructive partnership among Federal, State, and local governments, and private industry. Because there are distressed areas which have neither shared in the overall growth in the national economy nor responded to traditional Government attempts at stimulation, we recognize a compelling need to augment existing

Federal programs which assist local economic development, such as urban development action grants, or UDAG, and community development block grants, CDBG. H.R. 1955 experiments with a fresh approach to revive areas where the private sector is dormant.

Forty-three Senators and—at last count—231 Members of the House are sponsoring the administration's enterprise zone proposal. This is indeed an idea whose time has come.

The enterprise zone legislation would permit the designation, over a 3-year period, of up to 75 zones in which businesses and their employees would be eligible to receive tax and other benefits for participation in new business activity. The zones must be located in UDAG-eligible jurisdictions and must themselves suffer from pervasive poverty, unemployment, and general distress.

To accomplish this purpose, H.R. 1955 provides tax incentives for investing capital and creating jobs, especially for disadvantaged workers. They include: an additional 10 percent investment tax credit for new construction or rehabilitation of commercial, industrial, or rental housing structures; an additional 3 or 5 percent investment tax credit for depreciable personal property, such as machinery or equipment; a 10 percent tax credit to an employer who increases his payroll for qualified workers; a 50 percent tax credit to an employer for wages paid to newly hired economically disadvantaged workers, for the first 3 years of employment, declining by 10 percent in each subsequent year.

These credits, if unused, may be carried back 3 years or forward for the life of the zone. In addition, taxes on all capital gains realized from zone investments would be waived; and employees would receive a tax credit equal to 5 percent of their wages, up to an annual maximum credit of $525. Small-issue industrial development bonds, or IDB's, would be available during the entire life of the zone. The use of accelerated cost recovery for IDB-financed property would be permitted.

The payroll and investment tax credits, of course, would not result in a loss of tax revenue unless jobs are created or investments take place. And when they are used, we fully expect secondary feedback effects, such as reductions in public assistance and tax revenues from increased business profits and payrolls to substantially offset the initial costs. These effects, of course, could not be included in the Treasury Department's revenue estimates, which are based on assumptions of economic and demographic characteristics of sample zones. I should add that, because of the tremendous number of variables—such as zone size, number of employees, type of incentives utilized, and free market investment decisions—it is extremely difficult to predict costs with accuracy. Remember, though, the zones will be located in areas with minimal business activity, so that tax revenues from enterprise zones should increase in the future.

To help arrest endemic disinvestment trends in the zones, the bill also promotes public/private partnerships. Through the competitive designation process, local and State governments are encouraged to work actively and creatively not only with each other but also as partners with the private and community sectors. A targeting of local services is encouraged in the zone area, as is the easing of taxes, fees, and governmental requirements. These actions are encouraged, however, only where they are appropriate to the specific local situation and only within the fiscal ability of the State and local government. The bill also promotes involvement of private and community organizations in providing jobs and job training, and technical, financial, and other assistance to employers, employees, and residents.

A State and local government's course of action may include many of these activities and incentives, or others not mentioned here. The course of action is the core of the nomination process. It should describe their strategy and the commitments that the local and State governments, as well as the private and community sectors, have made to improve the climate for business investment and job creation. Again, let me stress, the State and local strategies and courses of action we would expect to see are those that are most appropriate to the specific zone. We impose no laundry list of actions that would bankrupt the community or have no potential impact on creating new business activity or retaining jobs.

The bill also provides a mechanism for States and localities to apply jointly for modifications or waivers of Federal rules if they believe such change would promote job creation, community development, or economic revitalization in their zones. But a Federal agency would not be permitted to waive or modify any rule adopted to prohibit or protect against discrimination, or that would directly violate a statutory requirement, or would be likely to present a risk to public health and safety. This means the bill would not affect the minimum wage, would not relax OSHA requirements, and would not permit environmental pollution.

In my view, the enterprise zones proposal constitutes creative federalism at its best. It provides significant incentives to encourage city, State, and private sector cooperation in addressing the problems of distressed areas—cooperation so often lacking and yet so essential to bringing these areas back into our economic mainstream. It encourages development of strategies tailored to local conditions and opportunities aimed at both physical revitalization and job creation and retention.

Mr. Chairman, the Nation is on the road to recovery, thanks in large part to the new economic directions this administration has charted with the bipartisan support of the Congress. Passage of the emergency jobs bill, the Job Training Partnership Act, and tax relief legislation, have been important steps. But, to continue our economic progress, we must generate permanent jobs, especially for the long-term unemployed and economically disadvantaged workers. This enterprise zone legislation offers an opportunity to help generate those permanent jobs. With its long-term commitments, the enterprise zone legislation gives assurance to business that the tax incentives offered for risking investment in distressed areas will not be altered for the life of the zone. At the same time, the employee tax credit provision would encourage a person on public assistance, who may be receiving benefits approaching the salary of an entry level job, to take that big step and start working.

When a similar bill was assigned to this committee last year, enterprise zones in the United States were regarded as relatively unknown and experimental. It is now an idea whose time has come. Over 20 States have already enacted enterprise zone legislation, and one additional State—Pennsylvania—is operating a program without special enterprise zone legislation. Of these 21 States, 13 have already designated zones and have begun to implement their own enterprise zone programs to stimulate private sector employment and economic growth. This progressive State and local activity will continue. And, the States and cities are telling us that they want and expect this activity to be complemented—to be further supported—by the Federal incentives proposed in H.R. 1955.

Despite the brief history of State enterprise zones, numerous positive results have already been achieved. Connecticut legislation provides venture capital loans, corporate income tax credits, sales tax exemption, employment training vouchers, reimbursements to local governments of 60 percent of property taxes abated, and $1,000 for each manufacturing job. Connecticut officials estimate that their program, in its first year, has generated $62 million in planned new private sector investment in the State's six enterprise zones. They predict these investments will save 1,900 jobs and create 1,300 new jobs in those areas.

Florida provides loans and grants to community development corporations in State enterprise zones, as well as tax credits for new and expanding businesses. The State also offers industrial revenue bonds and tax increment financing, available only in zones. Florida has several cities and counties already successfully implementing their own zone programs.

A Tampa enterprise zone encompassing Ybor City, an old cigar manufacturing center with a number of historical structures, is being redeveloped as an old town. Several new restaurants and a winery have been opened, creating 250 to 300 new jobs.

Your own State of Illinois, Mr. Chairman, recently designated eight zones, and its second round of competition is already underway. Already, the State zone incentives have been instrumental in Spiegel catalog investing $20 million to renovate its facilities and retaining 1,900 jobs in one of Chicago's two State zones.

In Decatur, Sears, Roebuck & Co. canceled its plans to move its downtown store to the suburbs and, as a result of Illinois enterprise zone incentives, decided instead to invest $3 million in renovation, resulting in the retention of 150 jobs.

Even with this activity, we still consider enterprise zones to be an experiment. For that reason, in making zone designations, we will select geographically diverse areas which reflect a variety of business climates and strategies for stimulating new business activity. Because we fully expect that fine-tuning of the legislation may be necessary after a few years of experience, the bill contains an evaluation requirement.

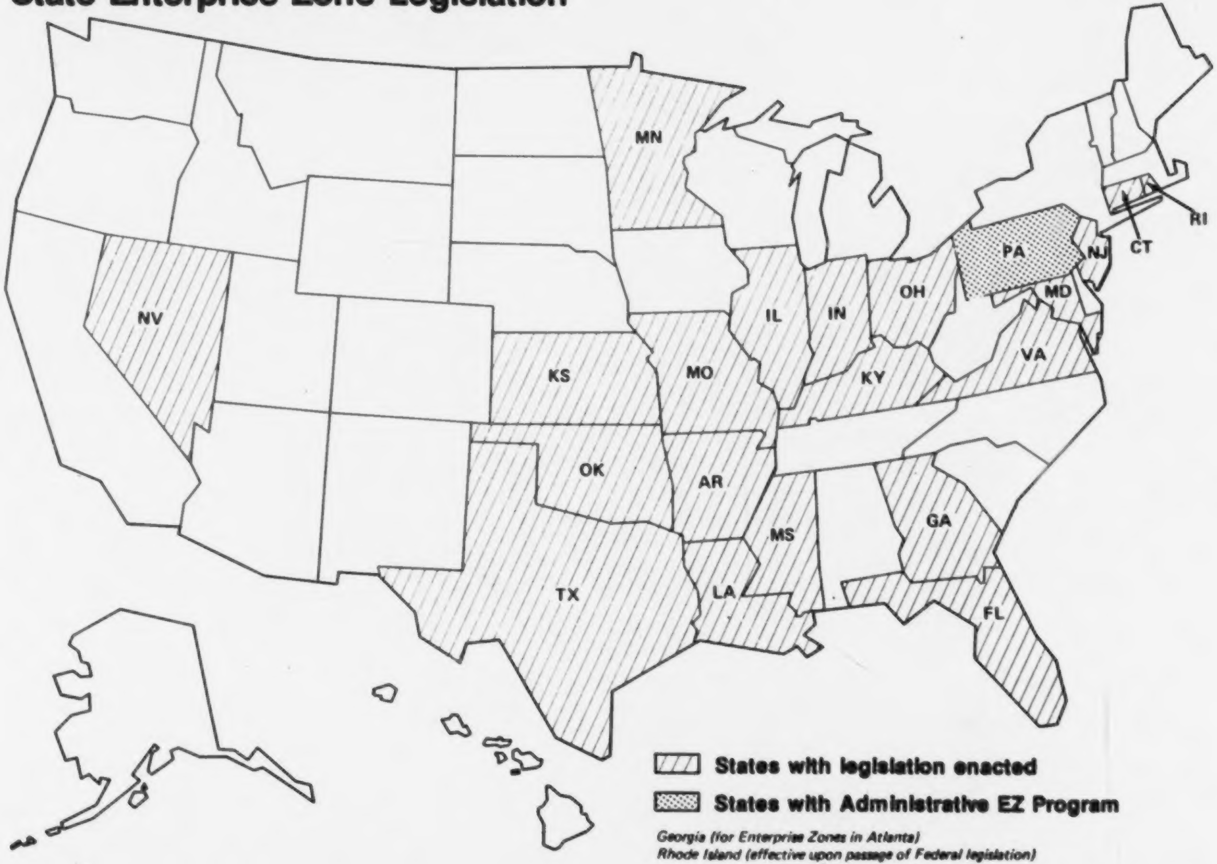
The enterprise zone bill now contains several important additions to last year's bill. These reflect the combined wisdom of the growing coalition supporting this idea. H.R. 1955 benefits greatly from ideas put forth by the small business community, State and local officials, labor organizations, public interest groups, and the many Members of Congress who have studied and debated our earlier legislation. The changes, which have passed in the Senate, include a rural and small community set-aside of at least one-third of the 75 zone designations and a corresponding reduction in the zone minimum population requirement from 2,500 last year to 1,000 this year for those jurisdictions.

Our bill now includes a retroactivity provision to encourage businesses to invest in local enterprise zones without waiting for Federal designation. Federal employment tax credit eligibility is preserved for businesses that hire qualified workers after a zone receives State enterprise zone designation but before that zone receives Federal designation.

In my view, enterprise zones incorporate a unique, innovative approach to combating the twin scourges of hardcore unemployment and blight. Enterprise zones seek to reverse the outmigration of human and physical capital from distressed areas. I am confident that, in the long run, enterprise zones can stimulate a gradual restoration of local tax bases so that once-depressed areas can again enjoy healthy, self-sustaining economic growth.

[Zone map follows:]

State Enterprise Zone Legislation


MN
NV
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NJ
CT
RI
MD
VA
KY
OK
AR
MS
GA
TX
LA
FL
▨ States with legislation enacted
▩ States with Administrative EZ Program

Georgia (for Enterprise Zones in Atlanta)
Rhode Island (effective upon passage of Federal legislation)

Secretary **Pierce**. H.R. 1955 does not propose a Federal program in the traditional sense. The success or failure of enterprise zones will be determined by the strength and pertinence of the city-State course of action. This is really a State and local program augmented by significant Federal incentives.

We have here a splendid opportunity to further our partnership efforts. I am particularly encouraged by the widespread bipartisan support by a majority of House Members for this bill.

As the President said in his state of the Union address last January:

> I hope we can work together on this, as we did last year in enacting the landmark Job Training Partnership Act . . . passage of enterprise zone legislation will also create new incentives for jobs and opportunity.

In this spirit, I urge this committee and Congress to give this proposal expeditious and favorable consideration.

Thank you, Mr. Chairman.

Mr. **Rangel** [presiding]. Thank you, Mr. Secretary.

You used to have working for you a Mr. Savas who was in charge of policy. It is my understanding that one of the concepts he supported when he was associated with the city of New York concerned plant shrinkage.

Are you familiar with that concept at all?

Secretary **Pierce**. No, I am not.

Mr. **Rangel**. Well, it kind of meant that if a community was economically depressed, as he would say, you don't throw money after it thinking that will correct the problem; you just leave it alone, reduce services, and try to concentrate on saving communities that look more salvagable.

The reason I raise that is because in the administration's bill there seems to be a concept of competition whereby the healthier community or the one which can get more assistance from the private sector, the cities and the States, is the more likely to be selected as an enterprise zone.

Am I fairly characterizing the administration's bill?

Secretary **Pierce**. Well, it is true, it is a competition. It is not a broad-based program that appropriates money to any particular zone.

I think one of the big things we have to remember is that this is basically a new idea. It is one that we need to experiment with. That is why we ask for only 75 zones over a 3-year period. We want to look at it and see how well it does, because it may have to be fine-tuned.

Now, on that basis, we cannot in our opinion go out and say any zone that does certain things will qualify. We want to see how well it goes.

Mr. **Rangel**. Why don't you just designate the zone since it is experimental, rather than raise the hopes of every poor community throughout the United States that——

Secretary **Pierce**. Because we——

Mr. **Rangel** [continuing]. That maybe they will be designated?

Secretary **Pierce**. Because we want the State and local governments to participate, and we do want to see the competition because from that we will get, we think, a better idea of what this legislation should be in the future and how these zones might have to be changed in the future.

Mr. RANGEL. Are you familiar with any urban policies that encourage the withdrawal of services from communities that look like they are about to go under?

Secretary PIERCE. Withdrawal of services from the community?

Mr. RANGEL. Yes; I am talking about plant shrinkage. But that is just something attached to Dr. Savas. But you are in the urban development part of the U.S. Government.

Is there a concept that if it looks like the houses have been abandoned and the businesses are leaving, that rather than invest in that community you should take these limited municipal resources——

Secretary PIERCE. I don't agree with that at all. What we are trying to do——

Mr. RANGEL. Have you heard of that concept?

Secretary PIERCE. What we are trying to do is stimulate, revitalize our communities—not let them go and become abandoned.

Mr. RANGEL. But you have changed this whole urban renewal concept to make it two-thirds urban and one-third rural. So you are——

Secretary PIERCE. I have not changed it. It was changed by the Congress, by the Senate.

Mr. RANGEL. You supported that, though?

Secretary PIERCE. We have gone with that, yes. But the——

Mr. RANGEL. What was it?

Secretary PIERCE. The original bill was——

Mr. RANGEL. And there was support from the administration?

Secretary PIERCE. It is supported.

Mr. RANGEL. Sure.

So now we got 16 urban communities and 8 rural communities, all poor, competing, and the healthiest of the communities will get the priorities. It's like a doctor working in an intensive care unit.

Secretary PIERCE. I can't agree.

Mr. RANGEL. Only certain ones will be getting treatment, and the healthiest of them will be selected.

Secretary PIERCE. That is not necessarily true. It depends on the particular program.

And also notice, it is State and local; it is not just the community itself. It doesn't mean the weakest community will be lost because a State and a local government may decide to give its greatest help to a particular weak community.

Mr. RANGEL. I would ask, politically would it depend on a particular community's relationship with its mayor? The chair has a unique interest in that.

Secretary PIERCE. I would not say it would depend on that. It would depend on the thinking of all people in the city who have anything to do with this including the mayor, the city council if they have one, and the people in the community, itself, because what this program seeks to do is to get into the act, not just the Government but the private sector as well. This is a true public/private partnership.

Mr. RANGEL. You don't believe the Federal Government and Members of Congress have a sufficient understanding of urban and rural problems that they could designate 25 areas that this is something we have to bring in the city council, the assemblymen and mayors and Governors to help us identify areas so that we can pick 25 of them? Or you can?

Secretary PIERCE. Well, actually, I think that one of the things that has happened through time is we have not relied on local governments enough. What we have tried to do here is run things from Washington. A lot of times we have not done a very good job of it. We need some of the thinking from the people in the localities.

Mr. RANGEL. Mr. Conable.

Mr. CONABLE. Mr. Chairman, I am certainly depressed after all this time to find you misunderstanding the program to the degree you appear to be misunderstanding it. It is not designed to help healthy communities, it is designed to help communities that are in trouble. It is not manna from heaven. Any gift is worth what you pay for it.

This is something that has to be competed for by communities that are in trouble and that are looking for some way to put together a creative program involving not just the Federal Government but the local and the State governments as well. Thus, the marshaling of resources on three levels is bound to be much more effective than manna from heaven or from Washington.

It seems to me that the Secretary has put together a program which is extremely creative and also will not cost the Federal Government anywhere near as much in proportion to its potential return as comparable Federal programs. We have had urban renewal programs that have shoveled out money like it was going out of style, without any clear idea of how it was going to be used and no local plan for its use. This may be depressing, in that we made this error for so long. But I am delighted we have come up with a new creative approach.

Now, Mr. Secretary, I would like to ask you a question. Some people are advocating making Federal tax credits refundable because much of the business that will be indigenous to the areas that you are likely to wind up choosing, because they have the greatest potential for improvement, will not be very profitable business. I wonder if you would comment on the proposal to make tax credits refundable, because I find a lot of people are talking about that as a possible improvement of the bill.

Now, I personally tend to resist the concept of refundability and don't want to see it extended because ultimately it can result in dramatic change in our whole philosophy on taxation. But would you comment on the issue of refundability?

Secretary PIERCE. Yes, I will, and I have a gentleman from the Treasury Department who is here, and he can go into it in more detail. But I can tell you the history of this as far as this bill is concerned.

We have spent a lot of time trying to find out what tax incentives would be good for this bill. We tried to balance it out in the sense of trying to make sure that these incentives would not be abused, trying to make sure that they were needed, trying to make sure that the bill would not become overly expensive in the sense that it would not pay back as soon as we thought it should.

After going through all of these things, it was felt that it would be best to have a nonrefundable provision. That was our thinking. That is our belief. We do believe that there are other tax incentives in the bill that will help bring many businesses and individual entrepreneurs into these zones.

But I would like to let the gentleman from the Treasury add a bit more to that.

Mr. PEARLMAN. Mr. Conable, this bill has been designed in a way to make sure that the tax benefits that are being made available can be available even if a particular individual or business cannot use the benefits through the use of consolidated Federal income tax returns, the use of partnership arrangements, and the use of leasing in transactions——

Mr. CONABLE. Gently.

Mr. PEARLMAN [continuing]. In ways so we shouldn't have the traditional problems of needing a refundable credit.

Mr. CONABLE. Thank you.

Secretary PIERCE. May I say one other thing Mr. Chairman, remember this bill is experimental. We did our best to try to put together a bill that we thought would work. We think that if the bill is passed and we look at it carefully—that is one of the reasons we have an evaluation provision in this bill—we can see whether these things are working or not. We also believe that there is a sufficient amount of tax incentives in the bill now. If we are wrong, time will show us we are wrong, but we don't think so.

We also have to remember that this bill not only involves the Federal Government, but State and local governments as well, and the State and local governments will be giving certain things to this program. We think that altogether this will be sufficient to stimulate businesses in these depressed economic communities.

Mr. CONABLE. To sum it up then, let's get on with it, right?

Secretary PIERCE. All right.

Mr. RANGEL. Mr. Secretary, I want to clear up that comment Mr. Conable made suggesting I was misunderstanding the bill by suggesting that assistance would go only to the healthy communities. I didn't mean to imply that. I recognize you are trying to target the economically distressed communities we have in this country.

My only point is that the administration's bill establishes a priority of designation, whereby the Secretary would be required to give special preferences to those nominated areas where the strongest and highest contributions have been promised by the nominating governments, taking into account the fiscal ability to provide tax relief.

So what I was attempting to say is that with so many sick communities those that are best able to receive assistance from their local and State governments, they would receiving priority and the rest of the communities would not be able to compete.

Mr. CONABLE. The gentleman should be encouraged by the implication of the large cities having some advantage because they have a tax base only a portion of which will have to be involved in the competition.

Mr. RANGEL. With 16 zones in the urban communities, and the number of urban communities that need assistance, Mr. Conable, I am not encouraged, especially when two of the cosponsors, Mr.

Kemp from Buffalo and Mr. Garcia from South Bronx—come from New York; and I intend to be as supportive as I can once I get a better understanding of how the designations will take place—but it doesn't leave much for Wes Watkins.

Mr. Schulze.

Mr. SCHULZE. Thank you very much.

Thank you, Mr. Secretary. I wonder if you would clarify for me portions of the nominating process. The proposal says one or more local governments, and the States in which they are located. Would there be added weight if you had a small city and it was located within a county——

Secretary PIERCE. I can't hear you, sir.

Mr. SCHULZE. Let's say there is a small city which is located within a county, and the city and the county, and the State, all are involved in the nominating process, and there is a bureau involved with that. Does the fact that there are more levels of government involved with the nominating process help, or is it the amount of assistance that those levels of government are going to contribute, that will have greater impact on the designation?

Secretary PIERCE. Well, let me tell you what has to be done here and what we think about when we talk about eligibility.

First of all, to be eligible the area must have a continuous boundary and a minimum population of 4,000, if located within a jurisdiction with a population of 50,000 or greater, or 1,000 in smaller areas specifically qualified as rural areas, or be located entirely in an Indian reservation.

It must also be a jurisdiction or pocket of poverty that is UDAG eligible, and be of pervasive poverty and unemployment and general distress and have an unemployment rate of at least 1.5 times the national rate, or a poverty rate of at least 20 percent or more for all census tracts, or at least 70 percent of the households in the area must have incomes below 80 percent of the median income of households of the local government, or a 1970 to 1980 population decrease of at least 20 percent. That gives the eligibility.

Once it has the eligibility, the Secretary must consider certain things. He will have to take into consideration the fiscal ability of the nominating local governments to provide tax relief; regulatory relief; and improve public services. He will also have to consider the involvement in the program by neighborhood organizations or other private sector groups which can make contributions to the zones; mechanisms to increase the equity ownership of zone employees——

Mr. SCHULZE. May I interrupt you right there, Mr. Secretary. What type of private sector contributions do you envision that would create a greater incentive?

Secretary PIERCE. It can be highly imaginable. It can be something as simple as a church or a charity in the area providing a place for day care for parents who will go to work; it could be something much more complex. It could be a business association that gets together and trains people to acquire new skills for new jobs being created in the area.

It is as highly imaginable as somebody wants to make it. That is the reason we propose this competition. Out of this will come all kinds of ideas and thoughts which I think will be very helpful in the future.

Mr. SCHULZE. One of those additional requirements, Mr. Secretary, which you have read off, was that the unemployment rate be 1.5 times the national rate. Would that be in the enterprise zone area itself——

Secretary PIERCE. Yes, in the enterprise zone area.

Mr. SCHULZE. Not in the nominating area across the city as a whole?

Secretary PIERCE. Not in the city as a whole, no.

Mr. SCHULZE. Just the designated area alone.

Can you give us an idea of priorities? I realize this is going to be a problem because you are talking about both rural and urban areas. Perhaps the priorities will be different for an urban area.

It seems to me we are trying mainly to solve that age-old problem of urban poverty; at least it seems to me that should be the main thrust of the legislation, so that we are going to have to find areas with genuine problems and not, as perhaps was alluded to earlier, take the easy route of those that look like obviously they are going to succeed; we should try to figure a way we will get the tough cases.

Secretary PIERCE. I think we will get the tough cases just by the eligibility requirements. They are going to be tough cases, just to become eligible.

Mr. SCHULZE. Under those categories, how many areas in the country would you say now roughly would be eligible?

Secretary PIERCE. Oh, a——

Mr. SCHULZE. 1,000?

Secretary PIERCE. Probably over 1,000. I understand it is 3,000 from my staff.

Mr. SCHULZE. 3,000?

Secretary PIERCE. Yes.

Mr. SCHULZE. You know, you are going to have a tough job going through those applications.

Secretary PIERCE. Oh, yes, well, we don't expect 3,000 applications, but we will get a lot of them. We will have hundreds. It is going to be a tough job, no doubt about it. The four enterprise zone criteria will thin this number some.

Mr. SCHULZE. What I am trying to do is get to the criteria you are going to use. Are you going to depend upon the—are you going to go to the greater contribution a State will make, the greater weight that application would have?

Secretary PIERCE. No, not completely, because remember what I said, for example, on the question of tax relief, we must take into consideration the fiscal ability of the nominating State and local governments to provide such relief. In other words, we have got to take that into consideration.

Let me say this. I am going to look at the tough cases. I want to try out the tough cases. In other words, if something is very easy, there is no reason why we should take it.

I think one of the things we will be doing is trying to get some of the tough cases to see how they go because, as I said, we will be experimenting with enterprise zones, and it wouldn't be a good experiment if we only take sure things.

Mr. SCHULZE. Thank you, Mr. Chairman.

Mr. RANGEL. Mr. Moore.

Mr. MOORE. No questions, Mr. Chairman.

Mr. RANGEL. Mr. Secretary, maybe we need additional language, but your response to Mr. Schulze's question as to whether priority would be given the local or State governments that make the highest contribution, was that it is in the bill and that is takes into consideration their fiscal ability to do it.

There is an assumption that many of the cities or State legislators want to do it. Yet, as a former State legislator, I know the prejudices that many State-controlled bodies have against the urban communities. So this is built into the Federal selection.

I have no problems at all with your sensitivity to the problem, but given the fact that we have over 3,000 eligible communities, it means that if you have been bypassed as a community for any reason—and I think, of course, of South Bronx which has been bypassed for decades—that that built-in negligence is going to reduce your ability to compete.

Secretary PIERCE. Well, I think we have to really look at that on a case-by-case basis and see what we have.

Mr. RANGEL. I can tell you that you can pick up a lot of votes if we can get to a case-by-case basis soon.

Thank you, Mr. Secretary. I certainly support the concept.

Mr. GUARINI. Mr. Chairman.

Mrs. KENNELLY. Mr. Chairman.

Mr. RANGEL. I am terribly sorry, Mr. Secretary, we have Mr. Guarini.

Mr. GUARINI. Mr. Secretary, I consider this a very important day for rural and urban America. I want to congratulate you on your leadership and for your innovative sense of putting together a distressed area program. I recognize the fact that it is on short order, but we should never be afraid to try something new and keep changing it until we get it right.

What concerns me is it is often the cash flow of these companies that is a great source of difficulty in their being able to successfully continue and maintain their business on a day-to-day basis. I am just wondering what your thought is as to where we could benefit these new enterpreneurs in these distressed areas by helping their cash flow.

Tax credits are fine, they take place a year later, however. A lot of tax advantages you mentioned are excellent if there is money being made by the business, itself. If the man doesn't have a cash flow, he can't meet his payroll and, of course, he needs that startup money and those advantages, and he can stay liquid until his business gets on its feet. He doesn't need the help a year later when he files the tax return and then it is only helpful if he is making money.

Are there any thoughts that you have as to how we could help these enterprise zone businesses by aiding their cash flow?

Secretary PIERCE. Well, actually, let me come back to something I said earlier. We spent a great deal of time within the administration and in various departments working on this concept, and what we have come up with we think will work.

It is true that some of the State and local governments have made grants and loan programs available, which would help cash flow. We think that what we have in the bill along with what the State and local governments are coming in with, is enough, and we would like to try it. We would like to experiment with this. We would like to look at it for a while before we add anything else?

Mr. GUARINI. There is no suggestion concerning delay of social security taxes or delay of withholding taxes.

Secretary PIERCE. No, we have thought about all these things, and what we have come up with is this package. It has been given a lot of thought, and we have considered a number of these things, but here is where we come out.

Mr. GUARINI. There will probably be a lot of changes as we go along.

Secretary PIERCE. As we go along, there can be changes and maybe we do need to fine tune this, I think we will.

Mr. GUARINI. Do you feel the selection process that you have is objective enough and that you have well-defined criteria so that the competition between the various applications could be fairly judged?

Secretary PIERCE. Yes, I think there is enough criteria in the statute at the present time, and if there were too much, then we wouldn't really be able to do this properly, and we wouldn't be able to experiment the way we should.

Mr. GUARINI. In other words, you need some elasticity.

Secretary PIERCE. I need some room.

Mr. GUARINI. All right.

Are you comfortable about the revenue losses? Do we have a fairly good idea of where we would be going? Is there a possibility that these will get out of hand? Can you judge well?

Secretary PIERCE. We do not think so. The Treasury has said that the cost of the first year, for 1984, would be $87 million; then the next year, it would go to $400 million, and then in the out years it would go up to $1.1 billion. But that estimate does not take into consideration that there will be a lot of new businesses, and that there will be new tax revenues.

What they are really saying is there would be a relocation of businesses. We know there are going to be new businesses. We know that, because already from the State programs we know that there are going to be new businesses.

For example, there has been an interesting study made by the Sabre Foundation, located at 317 C Street NE., here in Washington, D.C. They have made a study of the State programs and already they have found in the State programs that have run less than 10 months that there have been a total of 160 new startup businesses.

So we know there are going to be new businesses and in time, it will increase taxes and it will get more people to work, and it will mean more money, not just for the State and local governments, but indeed for the Federal Government.

So, in the long run, we do not believe this program will cost money. It will make money for the governments involved.

Mr. GUARINI. In other words, the retro feedback would warrant the enterprise zones that are place?

Secretary PIERCE. Yes.

Mr. GUARINI. Can you comment about surrounding areas? Could we create a vortex where the surrounding areas that are not depressed become depressed as a result of the movement into the enterprise zone?

Secretary PIERCE. That is another interesting thing about the study. They found that so far, the surrounding areas have not been hurt at all by these zones.

Mr. GUARINI. Has there been any experience in England as to this effect?

Secretary PIERCE. We watch England very closely, of course, because England was where the idea originated. But the trouble is that the English system is so much different than ours. It is difficult to say that just because England is successful, the United States will be successful, or just because England is not successful, the United States will not be successful.

We found, for example, there are tremendous differences in our tax programs. Their tax program is basically property tax abatement, run by the central government. Local governments in England have very little to do with enterprise zones.

So the programs have great differences. We know that the English program, which has run for about 2½ years, has been relatively successful to date. Employment has increased in England because of enterprise zones, but we can't say that just because it happened in England it will happen here.

Mr. GUARINI. It is a different economy, comparing apples and oranges sometimes?

Secretary PIERCE. Exactly.

Mr. GUARINI. There is a sensitive topic called IDB's these days. I understand that it is certainly very important where UDAG grants are given that there be wide latitude for industrial revenue bonds in these distressed areas.

Would you like to put on the record your thoughts about how important the IDB's are?

Secretary PIERCE. The IDB's are extremely important for these programs, because we think it is one of the ways of generating capital, getting money for the people who go into these zones.

We think it is so important that we have in our version of the law that even if IDB's are legislated out of existence for other purposes, they will continue to be available for enterprise zones. So we think it is most important to have IDB's in this program.

Mr. GUARINI. And they not be restricted or limited?

Secretary PIERCE. That is right, we do not want them restricted or limited.

Mr. GUARINI. Thank you.

Mr. RANGEL. Mr. Secretary, I am encouraged by your response that you are willing to work and see if changes would be acceptable to the administration to get a bill out. While Treasury estimates a $3.1 billion revenue loss over a 5-year period, I agree we also have to think in terms of revenue gains with an increase in employment and an increase in the tax base.

It seems if we could get more of that type of thinking in the concept of the bill, rather than thinking about revenue losses at a time when we have an increasing deficit, we might be able to expand the number of areas that we are talking about, as long as we are revenue-neutral beyond the 25 zones that we talked about this morning.

I am not asking for a commitment, but it would be helpful if your office could prepare data to allow us to see how we could possibly offset some of the initial revenue losses.

Secretary **PIERCE**. All right, we will submit something for the record.

Mrs. **KENNELLY**. Mr. Chairman?

Secretary **PIERCE**. Mrs. Kennelly?

Mrs. **KENNELLY**. Thank you for being with us.

Mr. Chairman, may I have permission to put a statement of welcome on record?

Mr. **RANGEL**. Without objection.

Mrs. **KENNELLY**. I come from a State that has a State designated urban enterprise zone, and there has been concern expressed on how would federally designated enterprise zones relate.

On a block-by-block basis, there could be a great deal of confusion if we didn't know how the State and Federal programs would overlap and interact. Has your bill addressed this?

Secretary **PIERCE**. Yes. Our bill will be complementary because we are giving Federal tax and regulatory relief. It has to be complementary, because the State and local governments do not have the power to give this relief.

Mrs. **KENNELLY**. Would the Federal enterprise zone precisely overlap the State enterprise zone or could it be next to the State enterprise zone?

What is the relationship?

Secretary **PIERCE**. The State and local governments get together and make the application to the Federal Government, so they are the ones who will make the decision.

Mrs. **KENNELLY**. Another question that I have heard come up is the situation with public utilities. Say a public utility has a building in which not many people are working, but there are hundreds of millions of dollars of equipment in the building.

Would a public utility be eligible for a tax break of the enterprise zone type?

Secretary **PIERCE**. Yes, it would. It would depend on where it is located, but it possibly could. But you have to remember, anybody can think—you know, if you use your imagination, you can think of a lot of things.

Remember, we are going to be looking at these enterprise zones. As I said earlier to Congressman Schulze, we are not going to take something that is a piece of cake and let it become an enterprise zone, when we only have 75 zones.

We are going to take the more difficult and more realistic kinds of situations that this bill was intended to combat.

Mrs. **KENNELLY**. Thank you. This really is one of the major pieces of legislation that gives hope to urban areas, and I thank you for being with us. This is an excellent bill to discuss in our country at this time.

Mr. **RANGEL**. Mr. Secretary, thank you.

We are pleased to have the presence and testimony of the Honorable Kika de la Garza of the sovereign State of Texas.

Mr. GUARINI. Mr. Chairman, may I put a statement into the record? I would like to say that we are very grateful for having had this hearing on tax incentives for distressed areas. Many of us are cosponsors of H.R. 1955.

As you know, Governor Kean of New Jersey signed a New Jersey enterprise zone bill into law on August 15 of this year. New Jersey's Governor and State legislature are convinced that this Federal legislation is an essential complement to the State effort. They strongly endorse the concept.

Due to a longstanding prior commitment, Governor Kean couldn't be here. You might remember his father sat on this committee many, many decades ago. Governor Kean was unable to be with us, but he has prepared a statement which I ask be placed in the record.

[The prepared statement of Governor Kean follows:]

STATEMENT OF HON. THOMAS H. KEAN, GOVERNOR OF NEW JERSEY

Over the last twenty years New Jersey's economic problems have largely been urban problems. Although other important economic issues have confronted New Jersey over this period, the twenty-year economic decline of the State's major cities has been the common, enduring element that has brought major economic and social distress to both urban and non-urban New Jersey. A few summary statistics dramatically convey the magnitude of the problem. Between 1960 and 1980. New Jersey's six largest cities lost more than 25% of their employment, while employment in New Jersey outside of those cities grew by nearly 70%. Accompanying this urban economic decline was a population loss of 15%, while population in the rest of the State grew by 20%.

I feel enterprise zones can provide sufficient economic incentives to induce the location of new businesses as well as the expansion of existing firms in distressed areas. Although enterprise zones alone cannot offer a complete solution to the multiple dimensions of urban economic problems, they can creat opportunity for private-sector economic development.

URBAN ENTERPRISE ZONES IN NEW JERSEY

Enterprise Zones were in the national news through the last Presidential campaign, and have remained in New Jersey's news with our commitment to bring the concept to the state. I signed the New Jersey Enterprise Zone Act into law on August 15, 1983.

The New Jersey Enterprise Zone Act provides for the establishment to enterprise zones in urban areas for the purpose of revitalizing those areas by allowing: (1) tax incentives and other location assistance to stimulate private investment; (2) a planning mechanism to coordinate the efforts of state and local government; and (3) the relaxation of certain governmental regulations.

The program will be under the supervision of the New Jersey Urban Enterprise Zone Authority which consists of the Commissioners of Commerce, Community Affairs, Labor, the State Treasurer, and five public members. This authority, with the assistance of the New Jersey Department of Commerce and Economic Development, will authorize zones based upon the submission of proposals by local governments, and approve or disapprove local zone development plans. The zone selection process will be based, in part, on firm commitments by both private investors and local government.

The New Jersey Enterprise Zone Program is carefully guided by the enabling legislation. The Authority may name only one zone per municipality, for a maximum term of 20 years. No more than two zones may be designated in a single year, and no more than ten may be in existence at one time. In order to avoid excessive geographic concentration, two of the first four zones must be in the ten southernmost counties. Of the next two zones, at least one must be located in the five next northern counties.

Since the selection process is competitive, the highest consideration will be afforded to those municipalities demonstrating substantial commitment to local incentives and delivery of local services, such as security, sanitation, fire, and infrastructure.

As determined by the Enterprise Zone Authority, businesses located in a designated enterprise zone are eligible to receive incentives from among those listed below.

(1) An immediate exemption from the Corporation Net-Worth tax.

(2) A $1,500 corporate income tax credit for residents living in the eligible municipality, provided that they had been previously unemployed for at least 90 days, or were dependent upon public assistance as their primary source of income. There is also a $500 credit available for certain other new employees.

(3) Retail sales to qualified business located within an enterprise zone are exempt from the state sales tax.

(4) Up to four zones will qualify for a 50 percent reduction in the Retail Sales Tax. A portion of the revenues collected from the three percent tax would be channeled into a special fund for public improvement projects within the zone.

(5) Job training assistance developed and coordinated by the New Jersey Department of Labor.

(6) An unemployment insurance award discount for new employees who are residents of the eligible municipality, or any New Jersey resident who has been unemployed for a full year.

Furthermore, we anticipate the cooperation of other private businesses in contributing to state and local incentives—such as the possibility of reduced utility rates for zones businesses.

In addition, New Jersey has recently authorized its own $45 million revolving loan programs—similar in design to the Urban Development Action Grant progam (UDAG)—which will provide financing to uran enterprises. This program will give special consideration to businesses located in, or intending to locate within a New Jersey zone.

THE MISSING LINK—FEDERAL ENTERPRISE ZONE LEGISLATION

In order to increase the likelihood of success, the economic incentives offered must be made sufficiently strong and attractive. Since the federal tax regulatory umbrella is far more extensive than that of any state, liberalization in these areas will greatly enhance economic incentives within zones.

The Administration's legislation and New Jersey's Enterprise Zone Act complement one another well. The federal bill requires state and local government commitments in order to qualify for federal designation. New Jersey's program provides for this. In addition, the federal bill includes critical elements not part of the State's program; namely, provisions encouraging capital formation by: Eliminating capital gains taxes on investment within zones, providing additional investment tax credits within zones, extending carryback and carryforward provisions, and a guarantee of continued IDB activity within zones. And direct tax credits for zone residents: An employee personal income tax credit, an employer tax credit of 10 percent of first $17,500 in wages, and an additional employer tax credit for hiring disadvantaged workers.

RECOMMENDATIONS TO STRENGTHEN THE FEDERAL/STATE/LOCAL COMMITMENT TO ENTERPRISE ZONES

In order to coordinate the efforts of government at all levels to provide the strongest possible enterprise zone program, I would recommend the following changes to the Administration's proposal.

(1) Qualifying Criteria—Since the purpose is to stimulate economic development in designated cities and to ensure that the benefits of increased employment spill over to its residents, zones should be in those areas with the greatest chance of economic success. As drafted, the Administration's bill specifies population-based criterial as necessary for zone qualification. By our calculations, this would eliminate many of our urban industrial and commercial areas from zone designation. States should be afforded some flexibility in determining qualifying zones to ensure that areas critical to statewide economic health are not excluded.

(2) Despite tax and regulatory incentives, investing in depressed urban areas entails a high degree of risk which discourages private sector lenders. We feel there should be additional financing mechanisms to lower the cost of credit, especially for new, developing industries. The New Jersey Revolving Loan Fund will help, but out lending ability is limited. We suggest a financing mechanism, such as the very successful UDAG program, be provided to businesses making capital investments within a zone.

(3) Since most employment growth is provided by small, growing firms, we recommend incentives for non-corporate businesses to provide a balance between small and large employers.

While we are enthusiastic over the potential of our first two zones, we cannot hope to easily remedy all the economic ills in our oppressed urban areas. However, cooperative efforts by all levels of government will, collectively, create strong incentives providing the opportunity for private investment and job creation. In order to achieve this, I urge support for the Administration's enterprise zone program.

Mr. **Rangel**. Without objection.

Mr. de la Garza.

STATEMENT OF HON. E de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. **de la Garza**. Thank you, Mr. Chairman. I have a statement which I hope you will grant me the permission to place in the record, and I will quote a few phrases.

Mr. **Rangel**. Without objection.

Mr. **de la Garza**. Thank you very much, Mr. Chairman.

I appear in favor of the legislation, H.R. 1955. Since my good friends, Bob Garcia and Jack Kemp, first introduced this enterprise zone concept, we have been interested in it for my area in Texas. It has been a long road getting here.

I am tempted to say, Mr. Chairman, a funny thing happened on the way to this hearing. I am overwhelmed to be here with three members of the Cabinet and to find out that even the President himself had a little pep talk with some of the witnesses who will appear today. So, it overwhelms me that now we have so much support and interest from the administration. This well may portend a good future for the concept.

Mr. Chairman, I support this really unique concept that distressed areas can be revitalized without the direct expenditure of funds. I do want to urge the committee, though, to consider other recommendations put forward in legislation being considered today to encourage venture capital participation in enterprise zones such as the proposal by our distinguished colleague, Parren Mitchell, to permit expensing of enterprise zone investments.

Indicative of the interest which you know is nationwide, Mr. Chairman, some 20 States, including Texas, have already enacted zone legislation. The author of that legislation in Texas, Representative Hinojosa from my district and my home county, will appear here later today.

With regard to some of the questions, Mr. Chairman, as to preferential tax rules to limited distressed areas, I can only show my area as an example. The Mexican peso devaluation created a terribly disasterous impact in our area with a resulting ripple effect all the way back to the areas where the items we sell are manufactured.

It has been difficult for border residents. The Congress earlier tried to act to assist us. Our colleague, Parren Mitchell, was very helpful in that respect. When we don't sell U.S. goods on the border, that reduces manufacturing in the Northeast in Detroit or in Chicago or Indiana and New York or other areas. So yes, I might have to select what are very distressed areas for the immediate impact.

If there is a natural disaster, an earthquake or a hurricane, the whole force and vastness of the Federal Government is there, the President makes a declaration, and he might even fly in to the area. You have an economic disaster like we had, and nothing happens. It doesn't have the sensationalism.

This legislation would allow us to work together to prevent economic disasters or to ameliorate the situation in the areas where we have them.

Mr. Chairman, I endorse the concept. I pledge my cooperation to this committee to work with you in improving the bill, because I am not satisfied the legislation is perfect.

There is some refinement that could be made to enhance passage of the bill, and to further the intent of all of us to assist depressed areas with new and novel concepts that would not necessitate solely an expenditure of funds.

With that, I thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF HON. E DE LA GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman and members of the Committee, I want to thank you for holding this hearing today to consider the enterprise zone legislation and for giving me time to express my support of H.R. 1955, the Enterprise Zone Employment and Development Act of 1983, which I am cosponsoring.

My good friends, Representatives Bob Garcia and Jack Kemp, first introduced the enterprise zone concept in the Congress in 1980 as a bipartisan measure. If the legislation had been passed in 1981, we now would be well into implementation of the 75-zone pilot program to determine the feasibility of the enterprise zone concept. And these 75 zones will hardly begin to respond to the great interest shown in enterprise zones throughout the country. I urge that we not delay any longer in exploring the enterprise zone potential to assist in the revitalization of blighted urban and rural areas through tax incentives and regulatory relief.

H.R. 1955 will test the relatively unique concept that distressed areas can be revitalized without direct spending of federal, state and local dollars. In the past, government assistance has always meant government spending. The enterprise zone legislation with its reliance on tax incentives and regulatory relief will enable us to find out whether economic development and growth can be achieved without direct spending. This is a very valuable test with important long-term implications.

The legislation will offer major federal tax incentives for job creation and small business growth to add to incentives already established by state and local governments for enterprise zones. This stimulus to the economies of selected distressed areas should provide important benefits to local and state economies as well as to the national economy.

The legislation's tax credits to employers for hiring disadvantaged or unemployed workers, along with the 10 percent tax credit on the increase in a business' zone payroll, will provide important savings to businesses setting up or expanding within an enterprise zone. We may well find that these tax credits will result in the most effective job training and placement program yet established. In addition, a personal income tax credit for employees will help reduce marginal tax rates for the low-income disadvantaged individuals.

At the same time, we need to recognize that the ability of many small businesses to expand is more dependent upon obtaining needed capital rather than tax incentives. I consider the provisions encouraging venture capital investment in enterprise zones equally vital to the success of the program. While H.R. 1955 eliminates the capital gains tax on zone investments, provides tax credits, and ensures that industrial development bonds can be used, I urge the Committee to consider other recommendations put forward in legislation being considered today to encourage venture capital participation in enterprise zones, such as the proposal by my esteemed colleague, Rep. Parren Mitchell, in H.R. 1735 to permit the expensing of enterprise zone investments.

Indicative of the nationwide interest in the enterprise zone legislation is the fact that 20 states, including Texas, have already enacted zone legislation, and 12 more states have legislation pending. Some states have already set up operating enterprise zones utilizing state and local tax incentives and regulatory relief. The early results for zones in operation are indeed impressive. New jobs are being created; existing jobs have been saved; a new work force is being developed from the ranks of the disadvantaged and unemployed, and private investment has increased. A recent study indicates tax revenue loss is accompanied by reduced demands on unemployment and welfare programs. As one example, the State of Louisiana has achieved substantial results with its enterprise zones, encouraging 3,542 new jobs, creating $9,186,580 in local and state tax relief, and raising $14,271,116 in estimated new tax revenues.

Mr. Chairman, in your press release announcing the hearing, you raised a number of fundamental tax policy issues relating to the enterprise zone legislation. Some of these questions can only be answered by creating a demonstration program and studying the long-term results.

With regard to your question whether it is fair to have special, preferential tax rules apply in a limited number of distressed areas, I would like to tell you that I would answer yes. As I well know, from seeing the economic devastation created in my District along the Mexican border following the Mexican peso devaluations, the impact of the devastation has been felt far beyond the border region. Inventories have declined hurting manufacturing areas elsewhere in the country, loss of income has meant far less spending on U.S. made products, and social service costs have leaped. The border crisis continues to be a major economic disaster with national implications.

It is interesting to note that when there is a natural disaster the President makes a disaster declaration and help pours into an area. When there is an economic disaster, there is no immediate relief. Yet, in the case of the peso devaluations, the effect on the border areas has been as bad as that of a natural disaster, and the ripple effect from this disaster has been felt nationwide.

With regard to applying preferential tax rules to a limited number of distressed areas, the ripple effect can be the same. Aid to a distressed area, whether it be financial help or tax incentives, promotes economic development, increases incomes, cuts social service costs, and results in increased spending for U.S. goods and services produced elsewhere in the country. So I say everyone in the country will benefit when such help is applied in selected distressed areas.

Mr. Chairman and members of the Committee, I thank you again for the opportunity to speak in support of H.R. 1955, the Enterprise Zone Employment and Development Act of 1983. I urge that the Congress pass the legislation as soon as possible. It would be a most welcome finding to discover there are ways other then direct spending to aid distressed areas.

Mr. RANGEL. Let me thank you, Chairman de la Garza. Certainly the committee welcomes your input, especially as relates to providing some type of venture capital assistance to smaller businesspeople, but you do understand that under the administration's bill, which you are supporting, that only 16 areas will be selected.

So, notwithstanding the economic disaster you may be having, we may have to pass over you in order to——

Mr. DE LA GARZA. I share your concern, Mr. Chairman, and I listen attentively to you, because it is limited—there will be only 25 zones each year. I would want to work with you. There are several communities in my district that hope to become zones. One community in my district in particular, because of the work they have done, feels that it should be entitled to zone status, but we don't know if it is forthcoming.

The Secretary can tell you all the beautiful words—with due respect to the Secretaries—that they will be fair, that there will be competition, that they want the involvement of the States and the communities, but you and I know the reality of the situation. To the extent we can correct weaknesses in the legislation and increase the number of zones, that would be helpful.

Again, as I said, I basically endorse the legislation in concept, and pledge my cooperation and my assistance with knowledge of the impact that it could have in my area and the needs of my area, perhaps putting them all together. Yes, I understand it is very limited. One worries about how the selection would be made because zones might not even be put in the proper areas or in the area of most need.

So, I would be very happy to work with you in that respect.

Mr. **Rangel**. That is good.

The Secretary said that his agency would be willing to consider decreases in Federal expenditures as a result of decreases in unemployment and decreases in welfare programs, so maybe if in your community you could have some of the local and State officials show what would happen to increase revenue as a result of revitalizing the community, then perhaps they would not just think of loss of tax revenue, they might think in terms of the increase in revenue as a result of not having to have so many people on the unemployment and welfare lines.

So, I think if the administration wants to look at that, we stand a better chance of getting our communities recognized as being in economic distress.

Mr. **de la Garza**. I think you are right, Mr. Chairman, and I agree with you. I want to work and cooperate with the authors, our good friends, Bob Garcia and Jack Kemp, and with the members of this committee, because Secretary Regan, with all due respect, and the people at OMB, have to deal with figures in a vacuum and all he sees is loss, but you and I know that a person working is money back many times more as it makes the circle through the local economy.

I know we get criticized that the Congress just throws money at a problem. Well, handled properly, that $1 can become $16 as it circles through a community. Even though it may appear to be a tax loss per se, if one individual is given preferential treatment, as we call it, for the reduction of his tax burden, 100 additional employees at *x* number of dollars will enable the Federal Government to recoup more in tax dollars than we gave in tax credits in the course of a few years.

We need to assure that that is known to the administration and to those who will be handling the policy part of this legislation.

Mr. **Rangel**. Mr. Guarini.

Mr. **Guarini**. No questions.

Thank you very much for your contribution. We look forward to working with you.

Mr. **Rangel**. Mr. Moore.

Mr. **Moore**. No questions, Mr. Chairman.

Mr. **Rangel**. Mrs. Kennelly.

Mrs. **Kennelly**. No questions, Mr. Chairman.

Mr. **de la Garza**. Thank you very much, Mr. Chairman. I appreciate your courtesy in letting me come in at this time.

Mr. **Rangel**. We thank you for showing interest and your willingness to work with us, because I think different parts of the United States will be able to present a better picture to the administration.

Mr. **de la Garza**. We look forward to working with you, Mr. Chairman.

Mr. **Rangel**. One of the prime authors is Jack Kemp, my friend and colleague from the State of New York. We are glad his schedule permitted him to share his thoughts with us today. By unanimous consent your statement will be entered into the record.

STATEMENT OF HON. JACK F. KEMP, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. **Kemp**. I appreciate that.

Mr. Chairman, I introduced urban enterprise zone legislation along with my colleague and friend, Mr. Garcia of New York City, 3 years ago. Today there are 233 cosponsors. I am very grateful for the bipartisan support. I appreciate the wonderful remarks of people like Mr. de la Garza, yourself, Mr. Conable, Mrs. Kennelly, and others. I want you to know how much I appreciate the effort that has gone into this legislation, not just on a bipartisan basis but on a more transcendant basis, conservatives, liberals, inner-city Congresspeople as well as rural, Wes Watkins, and others.

Would you mind if I asked my colleague and friend and comrade-at-arms in this battle, that has been lonely at times, getting more popular at the moment now that there is interest in this committee, would you mind if I violated the rules and asked Mr. Garcia to join me so we could give our testimony together?

Mr. **Rangel**. He is scheduled but if there is no objection from the committee members, we welcome the coauthor of this legislation to sit here.

Mr. **Kemp**. This proposal has bipartisan support. There is also overwhelming and enthusiastic State support, as Mrs. Kennelly mentioned. Connecticut has enterprise zones; 21 States have enterprise zones. Governor Tom Kean just gave the go-ahead for zones in several cities of New Jersey. They are here. They were not here 3 years ago when this proposal was first introduced. There was no empirical evidence, nothing that had been tried. We were just launching out there on the water to find out if there was any chance that this concept could get started.

Today the country has moved. Unfortunately the Congress is still behind the country, and I cannot understand why we are not moving more rapidly, Mr. Chairman. I do not mean to be critical of you. But I am critical of the sense of inertia that exists around this good idea. Mayors all over the country have supported it, from Voinovich from Cleveland to Koch of New York, Mayor Bradley of Los Angeles and Mayor Schaefer in Baltimore.

There are enterprise zones and they are working. Perhaps they are not perfect but they are new. One of the questions raised is about the number of zones to be designated. You mentioned 16. I would use 75 over 3 years, Mr. Chairman. If there should be more, I would love to have more. I think there should be more. I hope some day America is an enterprise zone from sea to shining sea, Mr. Chairman, where we have in this country the type of private sector growth and entrepreneurial activity that can help put this Nation back to work. I do not think you can put America back to work until each and every American is back to work. That is Mr. Garcia's goal, mine, yours, everybody's goal. It is the President's goal.

I think that irrespective of the criticism, this bill has evidenced not only broad support, but it has tremendous congressional activity and cosponsorship. If there are changes that need to be made, Mr. Chairman, make them. I support the idea of expensing, Mr. Chairman. I do not think there is enough seed capital flowing into the inner cities and to minority enterprises irrespective of where they are, so let us expense or at least give a 50-percent writeoff for the venture or debenture or stock of an inner-city enterprise. At this moment we are debating tax policy, while many of our colleagues are debating which taxes to raise. If you look at the world today, the countries, the States, the cities that are doing the best are those which remove or reduce barriers that stand in the way of people engaging in entrepreneurship.

Mr. Chairman, while we are debating creating jobs in the public sector, I must ask how can the war on poverty be a war on poverty if we forget the most important tool, the private sector.

This bill does not replace any other inner-city initiative or program. Bob Garcia had to answer this question in the South Bronx, you have had to answer this question in Harlem, I have had to answer this question in Buffalo. This bill does not replace IDB's or UDAG's or revenue sharing. We are not replacing existing programs for the inner city. We are trying to get another tool, Mr. Chairman. Inner-city residents in this country face the highest tax of any person in the United States of America. If you are on welfare in the United States of America with a family of four and you want to get a job in the private sector or start a business, I submit that that individual faces the highest tax in this country. If someone leaves welfare to get a job, the Government takes away the welfare benefit and taxes the reward that they get for working.

When my daddy started his business with six trucks in the thirties, he started with a motorcycle and traded it for a truck. He did not have to come to the ICC and beg for a license, but if you are black today in Los Angeles and you want to start a trucking business I defy you to get started, and if you get started I defy you to succeed with the paperwork and bureaucracy that exists in this country today. We have made it nearly impossible to be black, Hispanic, a female, or a teenager and to take a job of starting a business in this country. The barriers are unbelievable. Is it not possible that if we reduce some of these barriers the revenue gain would far overshadow the revenue loss?

Excuse my passion on the subject, Mr. Chairman. But we have waited too long. We are debating fighting inflation when the problem is recession. We are debating inflation and the problem is deflation. We are debating trying to save revenues and we are losing revenues because people are out of work. The cost of unemployment in this country is unbelievably high. The lost social benefits are worse than the lost budget benefits.

I do not believe the civil rights revolution in this country can go forward without opening doors to economic opportunity. What is wrong with abolishing the capital gains tax for any small businessman or woman who wants to go into Harlem or Bed-Stuy or the South Bronx or Buffalo and face the odds? This bill simply changes the debate over inner-city job creation. David Birch at MIT said 80 percent of all the new jobs created in the Northeast in the last 10 years have been created by small businesses. Why are we not trying to create employees by creating employers? What is wrong with being an entrepreneur? Why is it a bad word to suggest that entrepreneurship in this country is another tool to put people to work? Why don't we take steps to add expensing? Why don't we reduce the tax rate on the people that take the jobs? Target it any way you want.

I heard the questions earlier. If we cannot work together with Sam Pierce and the States, to fashion a bill that will target this to the neediest parts of this country, both in the cities and in those rural areas, Congress ought to just pack up and go home. We are sitting here and debating another tool for the inner city while there is 14- 15-percent unemployment in the city of Buffalo, 60-percent unemployment among teenagers, 30-percent unemployment among blacks and Hispanics. It is outrageous, Mr. Chairman.

Last point. Look in the world today and tell me that cities cannot solve problems of housing and jobs and a better tax base by reducing its burden of taxation. Hong Kong, the top tax rate is 15 percent. Singapore, the top tax rate is 10 percent. Sri Lanka, the top tax rate is 15 percent. In Dublin, Ireland, there is no tax on anybody who moves there and wants to invest in any kind of business, and the businesses they have reduced the income tax on are flourishing. The Ivory Coast is flourishing because Houphouet-Boigny has taken progressive steps to reduce the tax burden on the entrepreneur and the residents. In Bermuda, there is no income tax. Jamaica taxes you with $6,000 and 70 percent.

Let us take a risk. The real risk is doing nothing, Mr. Chairman. I support the Rangel amendment, the Mitchell amendment, any amendment that you can come up with to add seed capital to this inner-city bill, but I think we ought to get started. I think it is time to stop talking about it and get it done. Quit worrying about the critics, those who say there is lost revenue. There will be more lost revenue if we let the current conditions continue in the inner cities of the country.

Mr. RANGEL. Let the record indicate that the Chair knows the willingness of Mr. Kemp of New York to work with all the critics and supporters in the Congress to get the bill out, even if it goes beyond the concepts of the bill that you offered. I certainly appreciate the flexibility that you demonstrate in this.

[The prepared statement follows:]

STATEMENT OF HON. JACK F. KEMP, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman and members of the committee, I would like to thank you for this opportunity to testify on behalf of the Enterprise Zone Employment and Development Act of 1983, H.R. 1955.

Several witnesses have already testified in support of the concept behind this important legislation. I welcome this emphasis on enterprise zones as an idea whose time has come. If we are really going to make a difference to the people of America's inner cities and distressed rural areas, we will have to base this proposal on a sound understanding of how people tick economically, of how jobs are created and why cities prosper or decay.

Many witnesses have also offered specific proposals for revision. While these are welcome too, after months of discussions with literally hundreds of interested groups and individuals, I believe that we have achieved workable enterprise zone legislation. The incentives are deeper and more significant, the State and local roles are more important but also more flexible, and the provisions are more closely tied to the needs of disadvantaged workers—those who need and will benefit most from this important legislation.

What concerns me all the same, is that the whole debate about enterprise zones may get bogged down over issues which in fact are "straw men". So rather than review the history of the enterprise zone concept, or the details of the bill, I would like to take this opportunity to attempt to lay to rest certain misconceptions about enterprise zones.

First of all, I agree with the fact that enterprise zones are not a substitute for current programs. How many times must it be said? The bill has no hidden agenda. When Bod Garcia and I first introduced enterprise zone legislation in the summer of 1980 there was no question of changing programs like CETA, UDAG or EDA, and the cutbacks in the current budget have been made without reference at all to enterprise zones. The failed CETA program has in fact been replaced with a more promising program, The Job Training and Partnership Act, which more directly targets training for the truly disadvantaged youth and adults of this country. If anything, our revised bill makes the role of the Federal government more explicit, by confirming that Federal money can be used for projects included in a State and local zone incentive package. Enterprise zones provide a very different tool, and are aimed at reaching problems that direct Federal programs, by their very nature, have failed to resolve.

Above all, enterprise zones are designed to attract private capital.

Now, I know that this bill has been criticized for not providing "up-front" Federal seed money. Yet if we tripled recent Federal capital assistance programs—and there seems little public or Congressional support for such a move—these programs would still provide less than one-tenth of all start-up business capital. By far the largest portion—nearly 90 percent—of this capital comes from personal savings. Seventy-five percent of all new businesses start without using any outside debt or equity at all; and even when they receive outside funds these are more likely to come from family or friends than from financial institutions.

What makes a person decide to put his or her savings into a new enterprise instead of a house, money market fund or a yacht? The entrepreneur surely isn't looking for immediate profits. Most new small businesses don't make money for the first five years, if they beat the odds and survive at all. Instead, entrepreneurs choose the risky course of starting their own business because they calculate that, in the long run, they will reap a greater reward, both personal and financial.

What we don't, or shouldn't want is for the Federal government to be holding the pursestrings—picking and choosing which particular business ventures should be receivers of their largess. There is no way that bureaucrats in Washington can accurately assess the needs or desires for new business formation in any given locality. Also, we don't want to artifically stimulate the formation of firms, who, when the Federal funding runs out will fail, taking the new jobs with them. No one wins if that happens. It is important to realize that the Federal package of incentives are an incomplete list—designed to complement whatever incentives States and locals are willing to offer.

Future-oriented tax incentives make capital available in the present. By reducing capital gains and income taxes, in particular, the Enterprise Zone Employment and Development Act promises a greater reward to those who succeed in their initial risk-taking investment. In this way we can tap the greatest resource available for our inner-cities: the huge pool of private savings seeking a significant after-tax rate of return in these uncertain times. In addition, the bill provides continued availability of Industrial Development Bonds to small business in a zone even if such bond availability has been terminated elsewhere.

Enterprise zones also provide a unique tool for assisting the kind of business most likely to provide new jobs in the inner city and distressed rural areas. As the M.I.T. Program on Neighborhood and Regional Change discovered, two-thirds of all new jobs nationwide are created by businesses employing twenty people or fewer. Closer to 80 percent of all the new jobs taken by blacks and other disadvantaged workers are provided by small businesses, and 100 percent of the net new jobs in my own region of the Northeast, and in almost all of our declining central cities come from businesses with twenty or fewer employees.

Yet these are the very businesses that development grants, loan guarantees, and public job training programs, by their very nature, are least likely to reach. In fact, these smaller businesses tend to resist direct government assistance. When thousands of small businessmen and women came together for the White House Conference on Small Business in January 1980, they voted not for more Federal grants, loan guarantees or development assistance. Of their top 15 recommendations, the top 5 all proposed changes in the tax code, while 4 more advocated reduced government regulations. None of the top 60 recommendations favored direct economic assistance.

This doesn't mean that direct Federal programs don't have an important role to play in economic development. When it comes to large-scale projects, or infrastructure development, Federal assistance is often essential. But, as M.I.T. researcher Dr.

David Birch points out, "A problem arises when the target population consists of thousands of small businesses. They are difficult to reach. They are expensive to aid—the set-up costs are high relative to the magnitude of assistance provided. They can be very embarrassing—they fail often, and agencies cannot tolerate very many failures. * * *"

On this note, let me make a political point about the complementary roles of direct spending programs and enterprise zones. Whenever the Federal government seeks to assist new, small firms directly, it runs up against the fact that 4 out of 5 new firms fail in their first year. The number is sure to be even higher in the risky environment of the inner-city. Eventually, pressure for a decent success rate leads to a conservative strategy for aiding sure winners, who would probably would have gotten along fine without the Federal assistance, rather than encouraging risk-taking and entrepreneurship.

This problem won't be solved just by better Federal oversight. It is inherent in the process of economic growth. Not every entrepreneur who responds to the incentives offered in enterprise zones will be able, ultimately, to take advantage of them. Some will fail. So even as the tax incentives affect the risk-reward calculations of all enterprise zone entrepreneurs, the rewards themselves will go to the successful. Thus enterprise zones fit the nature of our economic marketplace, and can adapt to change, risk and failure. This is not only efficient—it will help ensure the program's political survival as well.

We need to keep this in mind, too, when we consider the possible tax "cost" of the Enterprise Zone Employment and Development Act. The more successful the zones are, after all, the more expensive they become in static revenue terms. If we have a widely successful enterprise zone, with hundreds of new businesses and thousands of new jobs enjoying the various tax incentives—is the revenue loss equal to the additional taxes these workers and businesses are not paying? But for the enterprise zone, would these businesses or jobs have otherwise existed? What about the reduction in costs associated with unemployment in the form of transfer payments such as AFDC, Food Stamps and Medicaid? I think any fair estimate of the "cost" of enterprise zones must take these questions into consideration. For instance, Louisiana and Florida have calculated that for every $1.00 in revenue foregone, $1.55 and $1.40 respectively, have been gained through a combination of increased revenue and reductions in transfer payments. And, of course, if enterprise zones do not succeed, we would be no worse off than before. That is more than can be said for many of our earlier efforts at urban renewal.

To me, one of the most exciting elements of the bill is the employer tax credit (50 percent of wages paid in the first three years, declining by ten percentage points per year over an additional four years) for hiring disadvantaged persons. Besides the credit percentage, there's no cap on what that employee can be paid. In other words, it's a terrific incentive for an employer to hire, train and promote disadvantaged people into the better paying jobs.

The final "straw man" in our current debate over enterprise zones is, I believe, the notion that this proposal would somehow be diluted by the 1981 Economic Recovery Tax Act. Just the opposite is true. Our inner cities, more than any other area, exist on the margin. Their people and their enterprises are hurt most by economic stagnation, and they have the most to gain from economic growth. It is no accident that black and white income in this country converged for the first and up until now, at least, the last—time in the late sixties, when the Kennedy marginal income tax rate cuts led to unprecedented economic growth. When the entire economy is growing, businesses seek out new workers, and new opportunities for expansion. In a stagnant economy it's unlikely that even the enterprise zones' considerable incentives would attract new enterprises, because new enterprises would not be starting up. But now, with our economic recovery gaining new strength every day, entrepreneurs are seeking new opportunities and new workers, and the marginal advantages of enterprise zones incentives are and will continue to be far more significant.

Let us try to examine enterprise zones on their own merits. While we should recognize that they simply can't substitute for existing direct assistance programs, we should also recognize that they bring important new tools to help us meet our old challenge of restoring jobs, economic vitality, hope and dignity to America's poorest communities.

ENTERPRISE ZONES: THE EVIDENCE SUGGESTS THAT THEY ARE WORKING

(By Representatives Jack Kemp and Bob Garcia)

Until now the debate on enterprise zones has been purely a matter of theory on both sides. Proponents have described what they expected in response to given incentives in given circumstances. Opponents have made gloomier assumptions.

But in recent days we have seen the first tangible evidence of the potential of enterprise zones. An exhaustive city-by-city study conducted by the Sabre Foundation of Washington, D.C. indicates that over 20,000 jobs have been saved, created or planned in just the last ten months in state designated enterprise zones. For the average urban zone, 104 jobs have been created with an additional 113 saved. Over 150 additional jobs on the average have been pledged in the urban zones.

These results are all the more impressive in light of the economic climate that has prevailed in each of these areas. The typical zones are reversing long trends of disinvestment and lost employment opportunites. Early findings suggest that a wide range of firms, particularly manufacturers, are making productive jobs available in inner cities and economically distressed rural communities. Equally important, the zone incentives appear to be making productive jobs accessible to neighborhoods where a large portion of jobless workers reside.

The Sabre study found that a substantial proportion of new jobs within the zone areas are going to the long-term unemployed and disadvantaged. In those communities tracking company hiring practices, expanding firms are credited with hiring from 23 percent to 100 percent of their new workers from these groups. These results are heartening, because the cornerstone of the federal enterprise zone legislation is a liberal employer credit for hiring such workers. If the results are this good at the state and local level, the federal incentive could well produce more job opportunities for those in need of work than even its strongest advocates have hoped.

These patterns bode well for the cities trying to shore up their economic bases and rehabilitate their industrial areas, for new companies seeking to locate in close proximity to the potential labor-force, and for low-income workers who simply cannot afford to commute to jobs outside the inner city.

Another healthy sign is the number of existing businesses in the zones that are expanding in response to the incentives rather than closing their doors. Indeed, the retention and expansion of existing businesses is one of the most important elements of any revitalization strategy especially in the older industrial areas of the Northeast and Midwest. Nearly 70 expansions, about 26 percent of all activity in the study, are helping to keep marginal busineses alive, with another 46 percent of zone activity attributable to new business start-ups. Fears that many businesses would simply shut down one operation to relocate facilities in the zones have not been borne out by this initial research.

Many opponents of enterprise zones had predicted that instead of creating new jobs, zones would only stimulate relocation of firms from outside the zone boundary, resulting in tax revenue losses. To the contrary, the research results indicate that very few relocations have actually occurred (less than 1 percent of the activity), with the principal gains in employment coming from expansions and new entreprenurial activity within the zones. Also, temporary construction jobs have been created thanks to residential rehabilitation activity.

Better yet, all of the activity has occurred with very little state or local bureaucracy and without the appropriation of an additional federal dollar. Congress owes a debt of gratitude to the nine states involved in this study for providing the unprecedented opportunities to field test one of its own initiatives before it acts.

The time to act, however, is upon us. It has been nearly three years since we first introduced the enterprise zone idea. We have always billed it as an experimental policy, not as a solution to every urban problem. The Congress has enacted numerous programs to revitalize the inner city from the massive urban renewal program of the sixties to the more structuted urban development action grant. The results of these programs have been mixed both in impact and in consequences. Enterprise zones have been designed with these programs in mind and as a complement to existing economic development initiatives.

Enterprise zones provide a unique tool for assisting the kind of business most likely to provide new jobs in the inner city and distressed rural areas. As the M.I.T. Program on Neighborhood and Regional Change discovered, two-thirds of all new jobs nationwide are created by businesses employing twenty people or fewer. Closer to 80 percent of all the new jobs taken by blacks, Hispanics and other disadvantaged workers are provided by small businesses. These are the type of businesses enterprise zones are assisting in the states today.

The federal enterprise zone bill also encourages states and localities to use some of their resources, including federal resources in the very poorest communities—communities which may have been overlooked in the past as city governments have sought bigger downtown development projects. Enterprise zones can help redress this imbalance, and have proven so by the fact that more than $450 million of private sector investment alone has been committed to existing state designated zones.

Enterprise zones are a departure form past urban policies in three ways: (1) they require virtually no new federal bureaucracy, (2) they provide incentives for private sector job creation and investment automatically rather than through lengthy grant application procedures, and (3) they are designated to secure real commitments from the neighborhoods and up through the city, state and federal levels of government.

If an enterprise zone should fail to induce business activity, then it will not cost the taxpayer a cent. If tax credits are claimed, it is because people have been hired and a business has been formed or expanded. It is fair for all involved. Federal, state and local governments offer an up-front reward to businesses that move into risky areas, and give inner city residents jobs and hope for their future.

This is a logic that cuts right through a generation of red tape and right across ideological lines. So far business, the states and local governments have embraced enterprise zones enthusiastically. If Congress fails to follow up on the experience the states are now providing us, we will have missed a golden opportunity to help people get jobs and to help our cities.

[News release of Jack Kemp]

WILL CONGRESS ABANDON WAR ON POVERTY?

WASHINGTON, D.C., November 17, 1983.—While the 1980s have been a time of intense partisanship, on several key issues the emergence of consensus opinon has been a catalyst of bipartisan legislative victories. The Martin Luther King holiday was passed overwhelmingly with Republicans breaking with their past opposition and joining Democrats in commemorating the civil rights revolution. This year we have forged a bipartisan coalition to promote a foreign assistance strategy that meets the security and economic needs of dozens of America's friends and allies around the world. And an emerging bipartisan consensus in Congress will, I hope, force the Federal Reserve Board to lower interest rates and keep this promising recovery moving.

Yet on no other issue has a wilder, more devoted broad-based consensus emerged than on urban enterprise zones. Black, white and Hispanic, liberals and conservatives, Democrats and Republicans, big city mayors, suburban and rural areas all support this constructive and progressive effort to help put our people to work in productive, meaningful jobs in our inner cities and other depressed areas.

How is it possible that the Congress can stand in the way of this broad-based movement for economic growth and opportunity? The people without jobs in our cities, the people who place so much hope on what actions we take here in Washington, deserve better than to have their dreams shattered by a handful of people in the Congress.

The War on Poverty was declared twenty years ago. It has been waged with federal spending and income redistribution. The result has been a truce with poverty. Our inner city residents, many of them minorities, continue to be trapped in a cycle of poverty and are desperate for an opportunity to make a life for themselves and their children that is worthy of the American dream.

The civil rights revolution opened doors that had been closed by law. It will not be complete, however, and our experiment in democratic government will not be a success until America's doors of economic opportunity are fully opened and our minorities brought into the mainstream of the American economy through jobs, income growth and enterprises. We cannot mock the American dream by giving people a ticket to get on the economic train and then allow that train to be halted.

It only takes common sense to realize that there can't be employees without thousands of new entrepreneurial employers. While Congress continues to debate theory, states and localities have validated the theories with experience. A survey of just nine states with operating enterprise zones found that over 20,000 productive jobs have been created or saved in pockets of poverty that had been suffering the most from economic decay and decline.

And while we can discuss and criticize the relative merits of quotas or set asides to help the minorities who suffer from long term unemployment, we find that minority entrepreneurs and workers in enterprise zones have gained a secure foothold on the ladder of economic opportunity and are moving steadily upward.

The question before us is whether Congress will turn its back on America's inner cities and their largely minority population. Is Congress going to abandon the war on poverty? There are always risks in doing something new, but in this case the danger from doing nothing is greater. Do we plan to leave the private sector out of the war on poverty? Do we propose to lay down our most effective weapons? Minorities across the country are trying to move ahead and create opportunities for themselves and their children. Will Congress block the way by refusing to help remove some of the barriers that stand in the way of self-sustaining economic growth and opportunity.

I know from my own experience in Buffalo, that there is no more important issue confronting us today than the revitalization of our inner cities and the creation of real jobs for our unemployed. If there are changes that need to be made to this bill, make them. If there are capital needs for minority and other enterprises that can only be resolved with an expensing provision as suggested by my friend Mr. Rangel, pass them. But allow us to offer hope to the inner cities through the federal enterprise zone program.

Mr. Rangel. We are privileged also to have the coauthor of the bill, Bob Garcia. Your prepared statement will be entered into the record and you can just highlight your testimony. I will ask the members to hold their questions until you have completed your testimony.

STATEMENT OF HON. ROBERT GARCIA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Garcia. Mr. Chairman, I would like to start off and talk about the genesis of the bill ever so quickly. We introduced this bill in 1980. It was at the particular moment in the political history of this country where George Bush had just won a stunning upset victory over Ronald Reagan in Iowa and he was yelling and screaming Big Mo, which meant big dollars, big money, big momentum, and the situation looked pretty dismal for Reagan. Also it was about the same time that Jimmy Carter was introducing an urban renewal program, his urban strategy. All of this developed about the same time that my colleague Jack Kemp and I introduced this legislation.

It seems to me that what has happened since then, Mr. Chairman, is that the years 1981 and 1982 have been a disaster for minority communities and for poor communities across America. And there were many people who were saying and thinking that what was taking place was that the urban enterprise zone was to take the place of all those programs that an insensitive administration had wiped out. I want to make it clear that as far as I am concerned, when we introduced this bill, Ronald Reagan was at the low point of his political life as it related to the Presidential politics, and it seems to me that that is important because it was in a spirit of bipartisanship that I entered into this relationship on this bill with Jack Kemp.

First of all I consider myself very much a liberal. I consider myself a progressive, and after 18 years in elective office I think it is fair to say that the record speaks for itself. Going beyond that, the 1980 Census figures came out where the South Bronx community, the 18th Congressional District has turned out to be the poorest congressional district in all America with the highest rate of poverty in all America. It seems to me that what we are trying to do here is to create an environment in which people can go to work.

I want to say from the outset, Mr. Chairman, that as far as I am concerned there is no guarantee that enterprise zones are going to work. I want to make that clear. This is not a panacea, not a cure-all for America's urban problems. I am saying it is worth a try. It is worth trying to see if this bill can work, and if it can work let us expand and go beyond the 75 over a 3-year period. If it fails let us pack up and take what we have of this bill, make it better and go forward with it again, but we are going to need tax exemptions in terms of getting industries into America's inner cities.

There are six quick points I would like to make, Mr. Chairman.

No. 1, as I stated before, enterprise zones are not a substitute and they were never intended nor should they ever become such.

No. 2, our efforts should concentrate on lowering the cost of labor in the zones, a 50-percent tax credit, phased over a 7-year period is recommended. Is recommended, Mr. Chairman because I stand with my colleague. I think that you and members of this committee have much more expertise as it relates to the tax problems that the enterprise zone bill may face, and I am willing as my colleague said to go with the Parren Mitchell recommendations, with the Rangel recommendations, if Nowak has some recommendations I will go with that. I really just want a bill.

No. 3, the minimum wage, which has been interpolated by people who did not want the bill in the first place, Mr. Chairman, is not to be touched. The minimum wage of $3.35 an hour is barely enough to live on today, and I am not about to disregard the 18 years that I have spent in my political legislative life to cut that minimum wage back. I have said that from the beginning.

No. 4, economically disadvantaged individuals should be those targeted for the employment opportunities.

No. 5, going back to leaving it up to this committee or other recommendations—venture capital, to start up new business, ought to expand. Venture capital is necessary to get the enterprise zone activities started.

And No. 6, an employee tax credit will be useful in increasing the disposable income of the employees, and such a provision is intended to provide encouragement to leave the dependency of the social programs and to get involved at the work level. I believe this will be most effective.

I would just like to close my statement, Mr. Chairman, by saying the following. Enterprise zones are not a new idea. The States, many States have been trying over the past years and attempting similar projects. Sixteen years ago Bobby Kennedy introduced the legislation, in 1967, and the specific purpose of the bill was to stimulate investment, and his quote was the following. I think it is applicable today as well.

> The creation of new jobs and income in poverty areas, the Federal Government provides only a system of tax incentives, carefully designed to enable private enterprise to make its investments in urban poverty areas. The Nation faces many problems. Some are outside our borders, some are beyond our comprehension, but of all our problems none is more omnipresent than the crisis of unemployment in every major city in the Nation.

It is with that, Mr. Chairman, that I would like to state two other points. We have received criticism on the enterprise zones from a group that I would like to think that I have spent a great deal of my life supporting, and that is the labor movement of America, the AFL-CIO. They have come out against this bill. I want to make it clear that as far as I am concerned the minimum wage, which is one of the areas in which they were concerned, was never an item to be discussed by Bob Garcia.

No. 2, I believe that the question of relocation is extremely important, and I believe that this committee should make darn certain that the IRS does not grant tax exemptions to people who move into these areas solely and strictly for the purpose of relocation and taking advantage of these tax breaks. I do not know how that can be worked out, but again I leave that in the hands of you the tax experts.

No. 3, Puerto Rico is very important to me. I am the only Puerto Rican in this body with a vote, there are two of us, myself and our colleague Baltasar Corrada, who does not have a vote. Puerto Rico has been hit hard by the section 936 program changes passed 2 years ago. You know well the problems that they face and your great work, Mr. Chairman, probably saved us a great deal of heartache. But I believe that that incentive program is important for Puerto Rico, but coupled with that I would hope that some special provisions would be made in this enterprise zone legislation where Puerto Rico would not be hurt in any way financially, because God knows they need help as well.

As it relates to you and I as former members of the New York State Legislature and now representing the State of New York, the State assembly passed this bill last year. The State senate held up on it. I believe that the recycling of moneys can occur in the zones. My aunt that passed away 5 years ago, used to live on 139th Street between St. Ann's and Cyprus Avenue. She worked for 20 years packing popcorn pies at Borden's on 138th Street. She worked in a community, she lived in a community, she spent her money in a community. That same $20 or $30 that she earned in those days weekly were dollars recycled 20 or 30 times in a community. I believe that a lot of this money would be recycled within a community itself with the enterprise zone, and it has to help us in the long run.

With that, I thank you for your patience.

[The prepared statement follows:]

STATEMENT OF HON. ROBERT GARCIA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, members of the Ways and Means Committee, thank you for the opportunity to speak on an idea I have spent quite some time with. Three long years have elapsed since our colleague Jack Kemp and I first introduced this legislation. In fact, our first discussions occurred during the same time George Bush had the "Big Mo" and Ronald Reagan was struggling in Iowa. President Jimmy Carter was about to release the recommendations of the President's Commission on Neighborhoods emphasizing the critical position of neighborhoods in determining the tempo and tune of urban life. Since this time we have seen many changes, in our economy, in our Government and in the status of urban America.

Since 1980, we have heard from literally hundreds of groups. Our interest has always been to develop a complementary piece of legislation, one which supported other urban efforts. Indeed nothing in the enterprise zone bill refurbishes infrastructure or directly combats crime for instance. Use of community development funds and housing assistance programs will still be necessary.

Because the committee has a very full agenda, let me quickly summarize my chief concerns.

I ask that an article I wrote last year describing my underlying philosophy and hope for enterprise zones be incorporated into the hearing record.

(1) As stated, enterprise zones are not a substitute. They never were intended to be nor should they ever become such.

(2) Our efforts should concentrate on lowering the cost of labor in zones. A 50-percent tax credit phased down over 7 years is recommended.

(3) The minimum wage is not to be touched. The minimum wage of $3.35 per hour is barely enough to live on today. I am not about to disregard 18 years of legislative service dedicated to increasing this most basic of worker benefits.

(4) Economically disadvantaged individuals should be those targeted for the employment opportunities.

(5) Venture capital to start up new businesses or to expand existing businesses is necessary to get the enterprise zone activity started.

(6) An employee tax credit will be useful in increasing the disposable income of the employees. Such a provision is intended to provide encouragement to leave the dependency on public assistance programs and accept an entry level job. To be its most effective, it needs to be refundable.

Mr. Chairman, I represent the poorest district in America. The South Bronx has the Nation's lowest income level, $3,567 per capita; the third youngest population, 24 years old; and 41 percent of its people living in poverty.

Considering these numbers, when a business calls my office seeking assistance either to stay or to expand, I want every available tool imaginable to assist him. The future survival of the Bronx is based on retaining and expanding existing businesses. The enterprise zone proposal offers my community a chance to be competitive with wealthier areas.

The enterprise zone is not a new idea, the States have been attempting similiar projects for years and over 20 have passed enterprise zone packages of their own. Indeed, Senator Robert Kennedy introduced similiar legislation in 1967 with these words—"the specific purpose of the bill is to stimulate investment—the creation of new jobs and income in poverty areas. The Federal Government provides only a system of tax incentives, carefully designed to enable private enterprise to make its investments in urban poverty areas—this Nation faces many problems. Some are outside our borders, some are almost beyond our comprehension—but of all our problems, none is more omnipresent than the crisis of unemployment in every major city in the Nation."

While not a new idea, I truly hope that this committee will endorse a package of tax incentives to make the inner city areas similiar to the Bronx, havens for business. In so doing, we will offer the best hope for the communities to rebuild themselves.

Thank you.

Question 1. How should targeted, distressed areas be identified and defined?

Answer 1. Over the last three years, targeting criteria in H.R. 1955 has been developed with the consultation of mayors, governors, local community groups and the Administration. Indeed, the criteria appear in numerous other bills introduced since the first zone proposal in 1980. As found in H.R. 1955, emphasis should be placed on the most distressed neighborhoods identified by a high poverty rate, high unemployment or noticable decline in housing and population over the last ten years.

Question 2. What tax incentives are most likely to aid in the revitalization of a distressed area?

Answer 2. Over the course of the last three years we have analyzed numerous tax incentives. Of primary importance are credits designed to lower the cost of labor to the employer. We recommend a 50 percent tax credit phased down over the course of seven years.

Additionally, some encouragement to outside investors to invest in businesses in the enterprise zones should be included. One such idea is expensing, which provides investors with a deduction equal to the amount of their stock investment in enterprise zone firms. This should be combined with the elimination of capital gains taxation currently built into H.R. 1955.

Question 3. How should the revenue implications of proposals provide tax incentives for distressed areas be assessed?

Answer 3. In analyzing revenue impact, the U.S. Treasury Department has produced numbers equal to $10–12 million per zone per year. However, it is very difficult to calculate the true revenue impact. One needs to factor in the size of the zone, the types and numbers of businesses there, the number of new start-ups, when they begin, the number of expansions, as well as the reduction in public assistance and unemployment benefits. Preliminary results from the states suggest that there are a higher number of start-ups and expansions than the Treasury Department estimated in its calculations, indicating that its revenue impact may be over-estimated. Furthermore, many have said that this program will only cost if it works, something to think about when one considers the vast expanse of vacant unproductive land, producing no revenue today.

Question 4. What are the relative advantages and disadvantages of tax incentives as compared with direct spending programs in addressing the problems of distressed areas?

Answer 4. Enterprise zones are a departure from past urban policies in three ways: (1) they require virtually no new federal bureaucracy, (2) they provide incentives for private sector job creation and investment automatically rather than through lengthy grant application procedures, and (3) they are designed to secure real commitments from the neighborhoods and up through the city, state and federal levels of government.

If an enterprise zone should fail to induce business activity, then it will not cost the taxpayer a cent. If tax credits are claimed, it is because people have been hired and a business has been formed or expanded. It is fair for all involved. Federal, state and local governments offer an up-front reward to businesses that move into risky areas, and give inner city residents jobs and hope for their future.

Question 5. Should the use of certain industrial development bond be limited to distressed areas?

Answer 5. Recently, this committee has had a great deal to say on the whole issue of Industrial Development Bonds. However, to ensure the usefulness of this tool and the competitiveness of enterprise zones, I would suggest eliminating from the calculation of the state's cap, those IDBs used in enterprise zones. H.R. 1955 also exempts enterprise zones IDBs from any limitation on the accelerated cost recovery deduction and the termination of small issue exemptions.

Question 6. Is it fair to have special, preferential tax rules apply in a limited number of distressed areas?

Answer 6. I believe that our country's tax code should be a progressive code based on one's ability to pay. Cannot this broad principle apply to the treatment of geographical areas suffering from a very low economic base, high rates of poverty and increased costs of conducting business? Furthermore, has not the government in the past thirty years encouraged the flight from the cities with such programs as the Interstate Highway System, thus encouraging development outside the city and FHA and other housing incentives which have, again, further encouraged the flight of the middle class? This is a very difficult policy question but not unprecedented. Puerto Rico has the Section 936 Program to encourage investment. Historic Preservation District offers special tax incentives for rehabilitation. Mortgage Revenue Bonds are targeted.

In sum, if we do confront limited budgets, should we not target them to our most distressed communities?

Finally, Enterprise Zones can also be used to test new tax incentives before attempting them on a national basis. Such laboratories of public policy can be extremely valuable.

Mr. RANGEL. Well, let me thank you two for your moving and stirring testimony and the passionate way in which you have evidenced your support for the administration's bill, certainly the concepts. I am amazed, at the extent that you would go in supporting the bill in its present form, especially my colleague, Bob Garcia.

I was reading to the Secretary and I think both of you were here one of the criteria in terms of priority of designation. It says the Secretary would be required to give special preference to those nominated areas in which the strongest and highest-quality contribution to a course of action has been promised by the nominating governments, and in our case the cities of Buffalo and New York, as well as the State of New York, would be required to take into account their fiscal ability to provide tax relief. I do not have a problem with our ability, but South Bronx, and parts of my district—you know Ed Savits, do you not?

Mr. GARCIA. I know him well, and he has been a thorn in my side since the day he came into HUD.

Mr. RANGEL. He was setting policy for the Federal Government, and what he was saying a lot of good thinking people support, and that is you do not pour good money down a rathole. You know, if it looks bad, leave it alone. And now we have to compete with poor communities that may be a little healthier or where local governments decide that they are going to push it.

You know one of the biggest problems we had with the Caribbean Basin Initiative is not that it wasn't a terrific concept, but when you looked at some countries so broke, and so many unskilled workers, no roads, people said it is great that you are using taxes but you've got to make a profit to get the credit. I know that you understand this problem. What I do not understand is how either one of you can go back to your specific congressional districts if this becomes law and when they pass you by because there are 3,000 or 4,000 other districts and they say do not worry, you are still in the running and we hope something happens. Can you say that if you have faith as long as somebody in the United States is testing the experimental program and that it is OK for both of you?

Mr. GARCIA. Congressman, let me say to you if I may, that as far as I am concerned I think probably the most important part of what we are doing here is the discussion of a concept. I have been in this process long enough to know that what you start off with you do not necessarily end up with, and it seems to me from the beginning of the conversation on enterprise zones and tax incentives and America's inner cities, my goal has always been to keep the conversation going and somewhere down the pike we will be able to do what we are doing right now, because we are not going to get total agreement from every member of this committee, and when we go into full committee in the House we may have to go through another process, but it seems to me as long as the conversation is taking place there is hope and a chance, and all I am saying to you is that I just want to keep the concept of tax incentives in the inner cities alive, whether they are called urban enterprise zones or whatever they are called, I do not care.

Mr. RANGEL. I want to support both of you, because I want to make it clear if this is the administration's urban renewal program, if this is all they got, count on my support.

Mr. KEMP. Mr. Chairman, let me answer your strawman. First of all, you have been saying, everybody has been saying from my colleague Mr. de la Garza to Secretary Pierce, to the editorial support that we have gotten, from governors and mayors and Hispanics and blacks—people who have supported it basically have their own targeted view of the concept. No one endorses everything, in the bill, but it is a good compromise, Mr. Chairman. Right now, we are sitting before a committee that makes changes every day in tax legislation. Some we criticize, some we support, that is the process.

When the King holiday went forward it started in the House and the President signed it. I am glad he did, but the pressure on the administration was because of the Congress moving. Where is the Congress on this one? If you designate an area for a possible or potential enterprise zone and you put several criteria, that is, lost population, shrinking tax base, high levels of poverty, CETA-eligible employees, where else but in the Northeast—what other part of this country has the highest degree of lost population, shrinking tax base, CETA-eligible employees?

Mr. Chairman, I agree that the jobs ought to be aimed at the Northeast. I would like to have a bill that just carves out the Northeast but you would never get it through the Congress. You have to leave it open to rural and other potential areas. If you want more zones, Mr. Chairman, amend the bill. I will support you. But do not build up a strawman. You are too much of a leader to do that.

Ronald Reagan has given his support for enterprise zones. It is in the Republican and Democratic platform. Let us, the Congress, adopt this tool to fight poverty. For years we have been trying to fight poverty by redistributing income. We would be denying ourselves another tool if we do not at least give this legislation a try. It has already passed 20 States. We are behind the States. Amend it if you want to, but do not talk against Bob Garcia because he supported the administration's zone, Mr. Chairman.

Mr. RANGEL. He is a courageous man. I would go with him in the South Bronx, even after this becomes law.

Mr. KEMP. The South Bronx and Harlem come right after Buffalo, Mr. Chairman.

Mr. RANGEL. There won't be too many left after Harlem.

Mr. Guarini, from Jersey City.

Mr. GUARINI. And Hoboken.

Mr. Kemp and Mr. Garcia, your zeal and energy has been very refreshing and certainly is as great now as it was when I met about 2 or 3 years ago in one of the offices with each of you.

I really want to congratulate you on what is, I think, an important part of our program for giving jobs to our people and rebuilding our distressed areas.

One thing that comes to my mind is that the reason why we are doing this is because of jobs. Now, jobs means labor-intensive kinds of industries. Now, I am wondering what your thoughts are as to how we could assure ourselves that we are going to be given jobs in labor-intensive type of industries to our people and not just have a push button factory that will have three employees doing a couple million dollars' worth of business in the course of a year?

Mr. KEMP. You are going to have testimony later today from the Sabre Foundation that is going to identify what types of jobs have been created in the nine-State enterprise zones that have already begun.

[The following was subsequently received:]

But, to address your specific question, this type of situation was taken into consideration in the design of the legislation. For the most part, the tax incentives in the bill are predominantly geared toward labor intensiveness. For instance, the 10 percent employer income tax credit on wages paid to new employees in the zone; the 5 percent tax credit, up to $525, to zone employees; and perhaps most importantly, the employer credit against tax of 50 percent for three years, phasing down to 40, 30, 20, 10 percent over four subsequent years, for hiring designated disadvantaged workers. These are very valuable tax incentives for hiring people instead of buying machines.

In addition, the bill is precise in its definition of both qualified employees and qualified zone equipment and construction property. Take for example, the case of a taxi-cab firm or a long-distance trucking operation moving into a zone with very heavy capital investment in the form of vehicles, but employing few drivers who would not conduct most or perhaps any of their work within the zone limits. First of all, zone personal property which is used or located outside the zone on any regular basis, would not meet the definition for eligibility for the 5 percent tax credit. Also, in order to be designated as a qualified zone employee, among other criteria, one must perform at least 50 percent of his or her services for the employer within the zone boundries. Obviously, neither the cab drivers nor the long-distance truck drivers would easily meet this criteria, so they would be ineligible for the employer/employee income tax breaks. These types of restrictions and qualifications were incorporated into the bill to discourage warehousing types of operations which could cause a revenue drain without creating many jobs.

The type of situation you described where you would have a large push-button factory opening in a zone with heavy investment in new plant and equipment but with few employees, which achieved high productivity—I must ask what is necessarily wrong with that? From the macro sense, higher productivity benefits everyone. Capital investment ultimately means employment. Now if a locality didn't want such an operation opening up within the zone because of concerns over the lack of new job generation, the local government could always use its flexibility with regard to its zoning requirements—by the way this type of regulatory relief in the area of zoning is encouraged with the bill—to prevent it.

Again, I want to stress that this bill may not be perfect in every way, and maybe some gaming will occur such as you have suggested, despite the precautions taken. But the important point to remember is that this bill is an experiment—to be fine-tuned from experience, and the only way it can ultimately be perfected is through implementation and monitoring.

Mr. **Kemp**. Most new jobs are generated by the the small business sector. If this country gets back to full employment, which we must continue to work toward accomplishing new jobs are going to come not from General Motors, but small businesses.

The Burke study at MIT identified the fact that 80 to 85 percent of new jobs in the Northeast are generated by businesses that start up and exist with around 50 or fewer employees. But these are just the types of businesses—small and risky—that traditional urban initiatives and funding programs have failed to reach.

I was with the mayor of Camden when he stood up with Governor Kean and all the people gathered that day we inaugurated the first enterprise zone for New Jersey. A Republican Governor, white; a Democratic mayor, black; and they talked about enterprise zones in the same framework—as an urban initiative well worth the try.

If you look at the reduction in the capital gains tax in 1981, in 1982 was, I would say in as rotten a year as 1982 was, with interest rates as bad as they were, with the national deflation as bad as it was, there were 50 percent more new enterprises begun in that year than any other year in the history of this country—600,000 new business starts.

Now, we can't guarantee them success, but we can guarantee them a chance to try. You just can't create employees without creating employers. I know that is a shock to some of our friends in the bureaucracy, but that's the way the world works.

Mr. **Garcia**. In New York, we have community planning boards and we have the city council members. My thinking along that line has been that the local peoples have to play a role, because if a plant wants to open up in a specific area of New York they have to go through what we know as a community planning board, and it would be in a community planning board, that would screen to find out, because I agree with you, that I don't want a warehouse where they say that we are opening up this plant here, and it turns out to be a warehouse with three persons manning this gigantic facility.

At the local level, they have to play a role, too, because I am not going to say to anybody in my district that this is an enterprise zone. I have been in politics too long to know that the community has to participate in what we are trying to accomplish.

I would lend whatever leadership I can, but in the final analysis, the persons sitting at the local level will make the decisions.

Mr. GUARINI. Concerning cash flow, is there any way that you think that these companies can be encouraged to go into these targeted areas that would be helped by either low-interest loans or subsidies of some sort that would assure their being able to operate with a cash flow?

Mr. KEMP. We have got more subsidies, more gimmicks. The tax code abounds with credits and write-offs. My State of New York identifies itself as the No. 1 State in tax incentives for small business. That is because it takes it all away at the front end and gives you a tax incentive to try to do something.

Mr. GUARINI. I am talking about tax incentives.

Mr. KEMP. Let's just have a bill, no with subsidy for any businessman other than a chance to go out and make it without a subsidy. Why don't we try it? Democratic capitalism—don't subsidize it, don't trickle it down, just reduce the burden of taxation on the entrepreneur and the inner city welfare recipient that I identified earlier.

[The following was subsequently received:]

The Sabre Foundation Study found that private investment has surged into existing State enterprise zones. Incentives offered by zones have been instrumental in stimulating commitments for over $450 million in new construction, expansions and renovations. Many States have established venture capital funds for small businesses moving into the State designated enterprise zones. Direct federal subsidies could very well discourage such State and local activity.

Mr. GUARINI. But the concept of a reconstruction finance bank or a national development bank, which is being talked about now, which probably will be passed out, deals with that point.

Mr. KEMP. I don't know what Bob is going to say about that, but if you have to come to Washington and get down on your hands and knees and beg the Ways and Means Committee for an allocation or beg a Reconstruction Finance Corporation for an allocation of credit or capital, it doesn't work.

The synfuel program is a good example. The big oil companies got there first with their lobbyists getting the synfuel grant money and producing synthetic fuel at $70 a barrel while we can produce it in the marketplace for $30 a barrel.

Why don't we do something for a change without having the Federal Government running it from Washington, D.C.?

Mr. GUARINI. Except we must remember that if we didn't help Chrysler or Lockheed, you would have hundreds of thousands of people out of work. By the same token, there is the other side of the coin.

Mr. RANGEL. Would the gentleman yield?

Mr. KEMP. This is not aimed at Chrysler, or at getting Chrysler to move into the South Bronx. The bill is aimed at the small businessman and women of this country, the forgotten people of this country, the inner-city black resident. If we give up on them, everybody is going to move out of the Northeast to the Sun Belt.

We have to restore an atmosphere where the entrepreneur can try—and succeed.

Mr. RANGEL. I agree.

Let me ask Chairman Parren Mitchell to join this panel, since he will not be able to return after this vote, for the purpose of submitting his testimony. I ask the consent of the committee to do this.

Mr. GARCIA. Could I enter into the record an article I wrote last year on the enterprise zones?

Mr. RANGEL. Without objection.

[The information follows:]

[From USA Today, November 1982]

ENTERPRISE ZONES: RESTORING ECONOMIC VITALITY TO INNER-CITY AREAS

(By Robert Garcia)

The history of urban development is the history of opportunity development. This seemingly simple principle lies at the base of the reasons for the develpment of every great metropolis that has ever existed. The factors comprising the opportunity development—a fortress location, an intellectual or religious sanctuary, or a port location—have changed, but the tenet of opportunity development has remained constant.

Since their founding, American cities' opportunity development has been based on the principle of private sector development, for it is only in the private sector that any lasting sense of accomplishment and belonging have occurred, and it is only in the private sector that assets may be accumulated and a city's and neighborhood's wealth created. The maintenance of a vigorous, productive private economy is critical if our cities are to thrive. It is especially vital for the central-city poor, for a productive private sector represents the only institution in society capable of permitting the poor to escape their poverty. A weak private sector simply does not offer them that opportunity.

The notion of the proper role of the Federal government in encouraging, buttressing, or reacting to private sector activities leading to opportunity development has been debated since the launching of our federalist system. Whatever the ideological or partisan persuasion, however, it can irrefutably be stated that, to the extent that a government program increases the opportunities of some or all citizens without correspondingly decreasing the opportunities of any citizens, that program has provided us with an example of the proper role of government in bringing about American urban development.

The enterprise zone proposal that I have developed, along with Congressman Jack Kemp (R.-N.Y.), is designed to use the vitality of the Federal tax code as an incentive for cities to assist in the creative regeneration of poor urban neighborhoods, and to do so in ways that will benefit the very people who now dwell in those neighborhoods. Enterprise zones will, in short, enhance and expand the opportunities for individual and institutional economic opportunity development.

The program will be discussed in detail later in this article. To initially describe the concept though, specified zones will be selected and identified by their high incidence of poverty, unemployment, and general deleterious conditions. Various tax incentives will be offered to encourage new businesses to locate and grow in distressed inter-city neighborhoods, and hire and train economically disadvantaged individuals. Local and state governments will be required to offer incentives of their own, such as improved municipal services or rehabilitation of infrastructure, in order to contribute to the success of the zones. The enterprise zone program has clear and fundamental purposes, namely to create jobs, spur private investment, and strengthen local economies.

In 1891, Lyman Abbott, writing in "Darkness and Daylight," a book describing urban conditions at the brink of a new century, asked:

"What shall we do with out great cities? What will our great cities do with us? These are the two problems which confront every thoughtful American. For the question involved in these two questions does not concern the city alone. The whole country is affected, if indeed, its character and history are not determined by the constitution of its great cities. . . ."

Nearly a century has not changed the timeliness of Abbott's remarks. What shall we do with our nation's cities, in order to restore their vitality and diversity, and promote the rejuvenation of all sectors of urban society?

I firmly believe that enterprise zones can play an important part in helping to restore the threads of vigor and optimism to our urban fabric. However, no one, and certainly not I, claims that enterprise zones will be the remedy for all that ails urban America. They most definitely have not been devised to replace existing vehicles of Federal assistance to distressed cities, and I have adamantly opposed every effort to attach to them suggested mandates for deregulation, subminimum wages, and elimination of other vital Federal urban programs designed to provide jobs, housing, and assistance for inner-city economic revitalization. I do not intend for this bill to stand alone. I do intend for the enterprise zone program, concomitantly with Urban Development Action Grants, the Economic Development Administration, job training, and other programs, to provide a mechanism for the useful, flexible, and creative reinvolvement of the private sector in such areas to bring about economic regeneration.

CENTRAL CITIES TODAY

The current situation in most American inner-city areas is very grave, characterized not only by record numbers of small business bankruptcies and the highest unemployment rate in 50 years, but also human suffering, hopelessness, and deprivation. A description of the current urban situation will dramatically illustrate the need for a continued strong Federal role in local economic development, which includes retaining and strengthening existing assistance mechanisms, and formulating new ones, such as the enterprise zone program.

Declining local economies. Many inner-city areas are in the throes of continually worsening economies, because of business disinvestment. Many of these areas are dependent on economic sectors such as manufacturing, which are declining nationwide. They have been unable to attract newer industries, or secure the expansion or prevent the demise of existing businesses.

Unemployment.—The reduction in central-city economic activity has brought about a corresponding deterioration of employment opportunities for the people living in those areas. Minorities, low-income persons, and female-headed households have been particularly hard hit, since they are increasingly concentrated in such communities.

In April, 1982, the national unemployment rate hit 9.4 percent, the highest level since the Great Depression. This figure, however, belies the unemployment crisis in inner/city areas. During this same month, the unemployment rate in New York City approached 10 percent—representing hundreds of thousands of persons looking for work, but unable to find it. In my South Bronx Congressional District, it was conservatively estimated that the rate hit 30 percent. Moreover, none of those figures include persons identified by the National Bureau of Labor Statistics as having "dropped out of the labor force," so discouraged that they no longer seek jobs.

Unemployment levels among urban youth, and especially among minority youth, tend to be much higher than those of adults. Currently, fully 35 percent of New York City's youth, and over 50 percent of those in the South Bronx, are unemployed.

Poverty.—The incidence of poverty is clearly linked with the opportunity for gainful employment. The nation's needy and declining central cities account for almost all of the growth of poverty. Almost 40 percent of this country's poor live in central cities. In general, more than 15 percent of the urban population lives below the poverty level. Yet, these areas often offer the poor few opportunities. In New York city, 18 percent of the population may be characterized as poor—and 29.3 percent of the residents of the South Bronx live in poverty.

Poverty in this country is not race or sex neutral. Although minorities comprise about 25 percent of the population of the nation's cities, they make up 45 percent of the central-city poor. Families with female heads comprise 40 percent of this total. In the last decade, the rate of increased incidence of poverty for these groups has far outstripped the rates of other segments of the population.

Infrastructure.—Central cities, particularly those in the northeast and midwest, are simply wearing out. Their infrastructure problems are so great that nearly half of the local officials polled by the National League of Cities in 1980 cited this problem as "critical" or "severe." In fact, urban infrastructure is disintegrating so rapidly that economic revitalization is hampered, further undermining the local economic base.

In a recent report, Business Week magazine noted that urban infrastructural decay threatens economic growth, and that a series of forces have converged which may further inhibit recovery unless reversed. These include substantial reductions in Federal aid, reduced tax bases, exhorbitantly high interest rates, and reduced attractiveness of state and local bonds along with increased competition for potential investors.

In almost every locality, particularly in older inner-city areas, streets and highways need attention, bridges are in disrepair, water and sewer systems are leaking, and mass transit is in difficulty.

Eroding fiscal capacity.—Declining economic activity has eroded the fiscal capacity of many cities. This has occurred directly through the loss of taxable business and indirectly from the loss of population and income. Recession and inflation during the 1970's have exacerbated their fiscal plights, resulting in budget balancing with only slim margins for error. A number of cities have even tottered at the edge of the fiscal abyss in recent years.

In short, there is a lot wrong with central cities today. Enterprise zones will certainly be no magic potion, no straightshot cure for all of this. Such conditions require a whole battery of economic development tools—grants, loans, incentives, and other assistance—to combat them. The targeted tax incentives of the enterprise zone program promise to be a useful addition to existing development programs.

THE KEY TO URBAN RECOVERY

In its final report in 1980, the President's Commission on Neighborhoods emphasized again and again the critical position of neighborhoods in determining the tempo and tone of urban life. Describing cities by their buildings, monuments, or financial centers ignores, as the Commission noted, "the persistent pulsing of life in these communities within communities" which city residents call home. In other words, the quality of life in any city is determined by the condition of its neighborhoods and communities, the places where people actually live and work.

What comprises a community? My experiences growing up in the South Bronx have given me a firm and practical understanding. A community consists of at least three things: jobs for the people who live there, housing for those who wish to call the community their home, and business establishments for shopping and work. That is how I remember the South Bronx of my youth, a vibrant neighborhood where my family and neighbors worked at local shops and factories, spent their wages at neighborhood stores, and lived no more than a few blocks from either. Not only was this arrangement convenient, but it created a real community and assured the constant recycling of our dollars in our neighborhoods.

The scenario was repeated throusands of times for other South Bronx residents, for other New York City citizens, and in central cities all over the country. Dynamic local economies, centered in the communities and which utilized the multiplier effects of resources retained in the neighborhoods, led to economic vitality in the community and contributed to the over-all financial and social health of the cities.

Today, however, many business and commercial trends have converged which have resulted in the exclusion, in many communities, of neighborhood-based commerce from the prevailing currents of economic activity. Both government policies and private sector forces have combined to undermine the foundation of many neighborhoods. For communities to be reintegrated into the economic mainstream of their cities, the conditions under which local entrepreneurial undertakings can flourish must be restored.

In order for the prevailing tendencies towards economic decentralization and conglomeratization to be overcome, calculated and reasoned public intervention is necessary to minimize the effects and, if possible, eliminate the causes of harmful distortions in economic behavior. In devising the mechanisms for such intervention, we must be as precise as is possible in our thinking about what the Federal government can and can not do to help our cities.

As I mentioned at the outset, the key to areawide development is opportunity development. This is especially true in local neighborhood areas. The Federal government must provide for the reestablishment of opportunity producing incentives in areas where they no longer exist, but once did. Such incentives should serve to attract businesses to neighborhood areas which face severe depression, unemployment, and poverty.

Enterprise zones will provide such incentives for entrepreneurs to return to previously shunned areas and contribute to the restoration of viable and self-sufficient urban neighborhood economies. The wealth of the community would once again have an opportunity to be retained in the neighborhoods, providing a strong base for the entire city. In recent years, the private sector—frequently with Federal assistance or as a result of Federal actions—has compounded neighborhood problems. Through enterprise zones, the private sector can now help solve them.

Federal tax and credit policies influence, to a great degree, the costs of labor, land, capital, energy, and other resources—all of which are important factors in business investment and location decisions. Taxes affect the relative cost to business of new capital, as opposed to existing plants, and of land in growing areas, as opposed to land whose value may be falling. As a result, the Federal tax system is probably the most pervasive Federal influence on patterns of economic development.

Enterprise zones have been designed fundamentally as a tax policy, aimed at overcoming several existing provisions of the Federal tax code which have reinforced the economies of growing areas and hindered the investment attractiveness of older urban areas. The Accelerated Cost Recovery System depreciation scheme enacted in 1981 makes it preferential to invest in new industrial and commercial structures and equipment, rather than existing capital stock. Non-targeted, tax-exempt financing of industrial and commercial development has proven to be a major factor in the march of investment from inner-city neighborhoods to fiscally healthy suburban locations.

The enterprise zone proposal provides the legal momentum to swing the tax pendulum the other way, to favor both new development and rehabilitation and improvement of existing facilities in the nation's distressed communities. It offers additional investment credits, employee salary credits, and guaranteed maintenance of tax-exempt financing targeted to these areas.

Targeted economic development policy is most effective when used in conjunction with existing programs designed to ease the plight of inner-city residents. Enterprise zones offer the administrative framework to direct tax incentives to firms in geographically specific areas, where they can be coordinated with other policies and programs in order to make the zone neighborhoods more attractive to investment and provide suitable living environments for their residents.

THE ENTERPRISE ZONE PROGRAM

The enterprise zone proposal provides a real opportunity to reverse the historic patterns of investment discrimination against inner-city neighborhoods. This legislation would make the inner cities attractive places for businesses to develop and grow, through a series of carefully chosen tax and investment incentives that will create jobs and promote the physical rehabilitation of major urban areas such as the South Bronx.

In developing the following program, my colleagues and I have benefited enormously from the substantial contributions of community groups, city residents, local activists, representatives of minority groups, mayors and city officials, small businessmen and women, and organized labor groups. All are committed to making America's cities better places to live and to work.

Throughout the debate and subsequent modifications to the first enterprise zone proposal, however, the purpose of the legislation has been steadfastly maintained. It is still designed to create jobs, promote private investment in communities, and strengthen neighborhood economies. Above all, it is still designed to enhance the community ties which connect neighbor to neighbor.

The proposed enterprise zone program features a tax incentive package with the following provisions:

Capital incentives

An additional investment tax credit for capital investments within a zone, ranging from three percent for personal property, to five percent for capital equipment, to 10 percent for the construction or rehabilitation of commercial, industrial, or rental residential structures.

Elimination of capital gains taxes on the sale of qualified zone property.

Continued availability of Industrial Development Bonds to finance small businesses locating in enterprise zones.

Labor incentives

Any employer could claim a 10 percent nonrefundable tax credit, up to a maximum $1,500 per worker, for payroll paid to zone employees in excess of that paid in the year prior to zone designation.

Employers would be permitted to take an additional credit for wages paid to disadvantaged individuals (primarily Aid to Families with Dependent Children, Supplementary Security Income, or general assistance recipients, or similar low-income individuals) hired after designation of the zone. This credit would consist of 50 percent of the wages paid during each of the first three years of employment, and phase out by 10 percent per year from years four through seven.

Zone employees could claim a five percent nonrefundable income tax credit for income generated by zone employment, up to a maximum of $450 each.

Complete protection for the minimum wage and all worker health and safety standards is maintained as well.

Other incentives

Zone firms could carry forward operating losses up to 15 years.

Investment and employment credits earned by zone businesses could be carried forward for the life of the zone.

Foreign trade zones would be promoted within enterprise zones, and applications would be given expeditious and special consideration.

Designation of a zone.—Either state or local governments may nominate an area for designation. This must be done by legislative action. A "confirming nomination" by the other government would be necessary before the proposal would be considered for designation. An area so nominated would have to be characterized by distress, pervasive poverty, and high unemployment; lie within the jurisdiction of both nominating governments; contain a minimum population of 4,000 if within a Standard Metropolitan Statistical Area, of 2,500 if without; and be the target area for legislatively authorized state and local incentives.

The application of an area meeting these basic requirements would be placed in a pool of qualifying applicants for competitive evaluation. The state and local package of contributions to a nominated enterprise zone will be the key factor weighed by the Department of Housing and Urban Development (HUD) in the competition for designation. Each jurisdiction will have to demonstrate the quality and strength of its proposed incentives, their applicability in addressing local development needs, and their ability to spur investment and lead to job creation.

From this qualifying pool, the Secretary of HUD would be empowered to designate up to 25 enterprise zones annually as entitled to the Federal investment incentives. The designation process will continue for three years, with a maximum of 75 Federal enterprise zones authorized.

The enterprise zone approach relies heavily on the initiative of local governments to identify both their economic needs and, in turn, the appropriate type of investment which will assist in the alleviation of their unemployment and help supplement their declining tax bases.

ADDRESSING URBAN PROBLEMS

The enterprise zone plan has been designed to promote economic revitalization of inner-city areas. It features tax incentives to entice jobs and businesses, particularly small businesses, back into decaying areas, thus encouraging private sector activity and investment which will directly address some of the most pressing problems facing our inner cities.

Job opportunities.—The enterprise zone provisions place significant emphasis on direct job-generating inducements. Companies which stand to realize the greatest benefits from employment tax credits, therefore, will be the more labor-intensive businesses and industries.

The tax credit level, at 50 percent of wages for targeted groups, will focus attention on hiring economically disadvantaged persons, and in large numbers. The seven-year qualifying time frame for the credits will encourage employee training by zone firms and hiring of economically disadvantaged persons into career ladder positions.

In addition, the plan directs attention to the problem of potential indiscriminate worker displacement in existing firms at the outset of zone designation by basing the wages subject to the credit on the amount of total company payroll increases which have occurred since the year before the enterprise zone was established.

State and local involvement.—The plan directs attention towards the formulation of a development strategy which matches localized needs with available state and local resources. The legislation mandates state and local cooperation in developing a workable strategy for the economic revitalization of the zone area, and the identification of resources to implement the strategy.

Furthermore, the bill broadens the scope of state and local contributions beyond simply offering tax relief by inviting other forms of incentives and commitments. Finally, the program would encourage direct participation of public and private organizations.

No one sees the current enterprise zone proposal as the ultimate urban tool. The legislation will soon be the subject of hearings in Congress which will refine it further. Several issues still need to be resolved in order to make it as useful as possible to the full spectrum of potential zone participants. For example, a stronger venture capital provision must be developed, in order to encourage the flow of startup money to small and minority businesses. Currently, although small businesses are often pioneers in revitalizing an area, some types will not be able to take full advantage of the proposed incentives.

Legislation approved by Congress must be sensitive to the need for a high degree of community involvement during the process of designating and developing plans for the enterprise zones. The zones will work best in conjunction with the input and efforts of local development organizations, the city, and, most importantly, the many neighborhood organizations already committed to urban revitalization. Finally, firm guarantees of the continuation of vital urban programs such as those providing assistance in reconditioning or building infrastructure, must be obtained.

Our nation will continue to grow in the years ahead. We must strive to ensure that economic expansion does not exclude certain segments of our population, areas of cities, or regions of our country.

The potential for urban revitalization is great. The ultimate goal of an enterprise zone program is to lay the foundation on which to rebuild and reinvest in our nation's distressed communities. For our cities to regenerate, they must yield opportunities for personal, business, and institutional development. Opportunity development has been, and will continue to be, the key to maintaining and enhancing a livable and viable urban environment.

STATEMENT OF HON. PARREN J. MITCHELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. MITCHELL. Thank you for allowing me to do this. We have a hectic time in the House right now, and I will not be able to come back.

Mr. RANGEL. You have made an outstanding contribution to the legislation. Mr. Kemp and Mr. Garcia of New York both have acknowledged the fine work that you have done to improve the bill and have gone so far as to accept many of the concepts that you have introduced.

Mr. MITCHELL. One other point. Working with my tax expert, we have developed additional tax incentives which are not included in the testimony that you have received, and I would like to submit these as an addendum for all the members.

I am not the great expert in taxes, but we do have some ideas that we think are feasible and workable.

I ask your permission that this addendum be added to my testimony.

Mr. RANGEL. Without objection.

[The prepared statement and attachment follow:]

STATEMENT OF HON. PARREN J. MITCHELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. Chairman and my fellow colleagues, I am pleased that you have invited me to testify on the issue of tax incentives targeted to distressed areas. As many of you are aware, I am the sponsor of H.R. 1735, the Community Assistance Revitalization Act of 1983 (commonly referred to as CARA). This bill is the result of my efforts to develop an alternative to other enterprise zone legislation. I believe that the priorities of the other enterprise zone legislation are wrong. Community residents and disadvantaged employees should be the primary beneficiaries of this type of legislation.

Although CARA primarily consists of tax incentives, most of its components are designed to fit into an overall economic revitalization program for distressed communities. We must recognize that such an overall program would require a massive Federal effort, combined with a national commitment to provide residents of distressed communities with a meaningful stake in the economic vitality of their community. These tax incentives, however, should not be viewed as a substitute for a Federal urban program. Instead, CARA has the potential to complement such a program, while building upon local strength and, more importantly, insuring that community residents, particularly the poor, share in the success of new businesses established in revitalization areas.

Under the provisions of CARA, areas that are designated as revitalization areas would be eligible for tax incentives that are designed to attract and retain capital, encourage employee ownership plans, and to establish community-owned development corporations. Revitalization areas are defined as generally small areas suffering from high unemployment, poverty, and other forms of economic distress. CARA is designed to decrease the tax liabilities of businesses operating in the revitalization areas, attract investment and debt capital for businesses and to increase State and local governments participation in the revitalization and development process.

Recent discussion concerning aid to distressed communities has focused on proposals which are solely tax and regulatory incentives for businesses. Even though some of these proposals advocate local community participation, they fail to provide a vehicle to maximize the community's participation in the development process. CARA deals with this problem by allowing the residents to designated communities to create a General Stock Ownership Corporation (GSOC). The GSOC would be a real estate development and commercial investment corporation owned by the residents of the distressed communities. Through their ownership of the GSOC shares, community residents will have significant input into determining the types of businesses and housing that will exist in the area.

A major objection of other proposals to aid distressed communities is to increase employment and training opportunities for the poor and hard-to-employ. They propose to fulfill these objectives by solely providing businesses tax credits or deductions. CARA improves upon this approach by requiring that Federal aid be directed to revitalization areas; and requiring the Secretary of Housing and Urban Development to promote and coordinate revitalization efforts in these areas. In addition, CARA offers beneficial tax advantages such as allowing area businesses the option of electing tax credits for each disadvantaged individual hired or a deduction from the income of the business based upon the percentage of disadvantaged individuals in their work force. CARA also offers employers significant incentives in the form of capital gains tax reductions, tax credits, and deductions to develop employee stock ownership plans. This integrated approach will deal more effectively with some of the problems that are traditionally associated with hiring the poor and hard-to-employ. The use of targeted jobs tax credits [TJTC], tax credits or deductions for employing the poor or the hard-to-employ will also reduce employers' expenses associated with tax liabilities during an employee's initial training period. Moreover, CARA further strengthens TJTC by allowing a business to claim a maximum tax credit of $5,000, instead of $3,000, on each worker's first-year wages for hiring the poor and hard-to-employ. The TJTC under current law is scheduled to expire on December 31, 1986. However, the TJTC has been sufficiently valuable to the small business community to warrant its becoming a permanent provision of the law.

CARA provides for the elimination of the capital gains tax on the sale of stock or other type of equity interest in which ownership is transferred to at least 51 percent of the nonoffice holding employees. It is well established that employee stock ownership plans increase employee motivation and productivity by impressing on managers and employees that their mutual success will depend upon their cooperative efforts. CARA increases tax deductions from 25 to 50 percent which can be taken by a qualified business for contributions to an employee owned trust in payment of a trust loan. I believe that this approach will make the American worker more productive.

The successful revitalization of distress areas should not result in wholesale displacement of community residents. Increased business activity in a revitalization area will undoubtedly affect the housing market. In order to assure that involuntary residential displacement is not an inevitable byproduct of a successful community revitalization program, CARA offers an investment tax credit for low-income rental housing. CARA also requires State and local governments to specifically discuss the issue of involuntary displacement in its application for designation as a revitalization area. Retention of low-cost housing minimizes involuntary displacement of revitalization area residents.

I believe that small businesses generally offer greater employment and training opportunities than large businesses. A recent study indicated that small businesses are responsible for the creation of a large percentage of new jobs and innovative products. Thus, a primary objective of CARA is to insure the continuing viability of small businesses operating in revitalization areas. It has been long recognized that poor management and lack of capital are major factors that contribute to the high failure rate of small businesses. CARA attempts to ameliorate these problems by providing tax cedit for the creation of an Entrepreneurship Development Center [EDC]. The EDC is a for-profit facility located in a revitalization area that provides managerial assistance in such areas as financing, taxation, marketing, and management techniques. The EDC will also provide physical resources, such as machinery, computer services, laboratories, and office space. Qualified area business would be eligible for entrepreneurship development center assistance when at least 30 percent of the business' workforce is hired from the poor or hard-to-employ.

It is counterproductive to help small business create new jobs for the unemployed if those businesses fail within a short period of time and the jobs created disappear with them. Most small businesses have problems raising sufficient capital to adequately operate their business. CARA deals with the capital formation needs of area businesses by providing incentives designed to encourage investors to direct their money to revitalization area businesses. To accomplish this, CARA defers the imposition of the capital gains tax on any transaction in which the proceeds of such transactions are reinvested in revitalization areas. I recognize that most new small businesses do not earn sufficient taxable income to benefit from the tax credits and deductions provided by this legislation. In this regard, start-up companies, companies with economic losses and companies that had other large tax deductions or credits often could not use all of these tax benefits to obtain a current reduction in tax liability necessary to absorb the benefits. In other words, these businesses need capital and not tax deductions or credits to expand the business, hire additional employees, or to invest in equipment and machinery. To address this problem CARA provides an expense deduction for the purchase of small revitalization area business stock or debentures. Expensing allows an investor to deduct on his or her tax return the cost of the small business stock or debenture. It is common knowledge that many investors are reluctant to invest in a small business because of the high failure rate for new small businesses. This provision will offset some of these investment risks by creating a more favorable investment environment. Only those investors who invest in a qualified small business are eligible to use expensing. In general, a qualified business is defined as a revitalization area business whose average annual gross receipts do not exceed $4 million. The maximum allowable expensing deduction that may be taken by an investor for any taxable year shall not exceed $10,000 or $20,000 in the case of a joint tax return. And more importantly, expensing creates a new financing tool for the small businesses that have been unable to obtain access to capital markets. In addition, CARA amends the Small Business Act to provide at least $50 million in direct loans for small businesses operating in revitalization areas. Also, CARA allows a 30-percent tax credit for installing energy conservation equipment. This will help area businesses reduce costs associated with the purchase of energy and encourage conservation of our scarce natural resources.

In addition, my proposal requires that HUD shall conduct a baseline survey of the revitalization area every 4 years to measure its impact on area businesses and residents.

CARA is not a cure for all of the ills that plague distressed communities. However, it is an integral part of a comprehensive revitalization program which our distressed communities sorely need. When CARA is compared to other enterprise zone proposals, I am sure that you will agree that it is clearly a superior revitalization program. Moreover, it provides community residents with an economic vehicle that maximizes their participation in economic development activities. In addition, it provides area businesses with the tools they require to attract and retain capital. Both sides would profit from its enactment: Local business would increase its earnings through tax incentives, and employee motivation, and productivity would increase through participation in the employees stock plan and the General Stock Ownership Corporation.

Mr. Chairman and my fellow colleagues, I thank you for providing me this opportunity to testify and I am available to answer any questions you may have regarding my testimony.

ADDITIONAL TAX INCENTIVES SUBMITTED BY CONGRESSMAN MITCHELL OF MARYLAND

(1) The elimination of volume caps for industrial development bonds use in a designated revitalization area.

(2) No cost recovery restrictions for IDB-financed property in designated revitalization areas.

(3) No basis adjustment for "qualified property" that is eligible for the Investment Tax Credit used in a designated revitalization area.

(4) No restrictions on the issue of IDBs for the purchase of land or existing facilities.

(5) No $10 million restriction on "small issue" IDBs.

(6) The elimination of the alternative minimum tax for taxpayers who have certain tax preferences as a result of revitalization area transactions.

(7) No denial of tax exemption for bonds with Federal guarantees by the SBA for Pollution Control facilities.

(8) Cash Accounting and Simplified LIFO Accounting Method for designated revitalization area businesses.

Mr. RANGEL. Your tax person has worked very closely with the Ways and Means Committee in order to make certain that the work of the Small Business Committee meshes with what we are trying to do, so thank you for that dialog.

Mr. MITCHELL. Thank you very much. I regret the circumstance.

Mr. RANGEL. Your presence is enough, and thank you for your testimony.

Mr. Moore.

Mr. MOORE. I want to congratulate the two authors of this bill, Bob and Jack. It seems that any time you do something different or novel or daring, it is controversial. Don't be dismayed by that, gentlemen. I respect you for it.

I respect you, Jack. You seem to always be thinking in terms of trying to do something along the lines of enhancing productivity. Bob, it takes courage for you to go through what you are going through, and I very much appreciate your doing that as well.

This doesn't go unnoticed to people like me who were uncommitted on this issue and have been watching it since 1980. In reading last night for the better part of 2 hours a file about an inch thick we have been collecting on this issue, and listening to testimony of this morning, I know enough now to know I am willing to be moved to action. So I will enter my name as the cosponsor of this legislation, Mr. Chairman.

I will move this committee to go forward from the hearings and begin to get something done to mark it up. I am willing to take the risk and do what you two gentlemen have asked us to do; that is, simply see if we can work out the problems people are seeing with this.

There has never been a program created such as this program. No tax has been passed or reduction passed where we didn't have to work out the details. You are willing to work with us, and you are telling us to do that.

I think the alternatives of not doing this are far riskier and more expensive. I say to people who seem to have problems with enterprise zones, we do that already with UDAG grants, EDA grants. We talk all the time on the House floor of trying to target things because we don't have the money to give everybody everything. We have to target our assets.

What is the difference to start targeting tax benefits? What is the difference? So, we may have to take that risk. I am willing to try a targeting concept of tax benefits to see if that doesn't help in the targeting of the grants in that respect.

So I want to thank both gentlemen and tell you, you have convinced me. I have signed on. I am for it.

Mr. KEMP. Thank you for your testimony.

Mr. Chairman, Mr. Moore just mentioned it—we target free-trade zones. Buffalo has one. New York City has a free-trade zone. We have them all over the country.

All this is is taking the free-trade zone concept and expanding it to stimulate greater entrepreneurship.

Mr. **Rangel**. Mr. Nowak will be the first witness when we come back.

Mr. Fowler.

Mr. **Fowler**. I can't come back because of a conference committee.

But let me ask you this, Mr. Kemp: Do you see any inconsistency with our country's tax policy that allows for industrial development bonds to build shopping centers that take away, through a tax subsidy, from the mom and pop operations that seem to leave a lot of small towns and communities, and go to the outskirts and leave a loss of revenue behind? Does that bother you in your concept?

Mr. **Kemp**. Yes. I don't believe that IDB's should be used for anything other than industrial infrastructure. I think there should be a cap. I think it is outrageous that they are being used for things not intended, and that as a result we are losing revenue. It is just allocating a credit cap from Washington, D.C. I think we should do all we can to force the interest rates down and give everybody an allocation of credit and liquidity.

The reason you have to resort to IDB's is because we have artificially kept interest rates so high that you can't get an allocation of credit until you go to the bureaucracy and beg for your McDonald's hamburger franchise. Now, I have nothing against them, but it is outrageous that IDB's are being used for such purposes.

Mr. **Guarini**. Will you yield for a moment?

Mr. **Fowler**. Yes.

Mr. **Guarini**. Do you feel there should be an exemption regarding IDB's for the enterprise zones we are talking about here?

Mr. **Kemp**. I would be willing to listen to the wisdom of the committee. I think Mr. Rangel said we should target the enterprise zones and the bill contains a provision which allows for IDB's to be available in designated Federal zones regardless of the status of their availability elsewhere in the country.

Something has to be done to keep IDB's going to the places they were originally designed to help. While there is too much lost revenue from just scattering them capriciously, targeting them to enterprise zones makes sense.

Mr. **Guarini**. Let's vote.

Mr. **Fowler**. The committee stands adjourned for 15 minutes.

[Recess.]

Mr. **Rangel** [presiding]. The committee will reconvene its hearing on bills relating to distressed areas.

We are privileged to have my colleague from New York, Congressman Nowak, who has done a great deal of work on this subject matter of distressed areas and has introduced his own bill which is included in the report that is before the committee, prepared by the Joint Committee on Taxation. And we thank him for taking time out to share his views with us today.

By unanimous consent, your prepared statement will be entered in its entirety in the record at this point.

STATEMENT OF HON. HENRY J. NOWAK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. NOWAK. Thank you very much, Mr. Chairman.

First, I want to commend you for holding these hearings and looking at this problem.

Thank you, Mr. Chairman, for the opportunity to express my views on this issue, in particular, and I am happy to testify on my economic revitalization legislation, H.R. 2375, the Enterprise Development and Industrial Revitalization Act of 1983.

The so-called enterprise zone idea has been the focal point for the discussion regarding the implementation of an urban revitalization program since the 96th Congress. Representing the district of Buffalo, N.Y., a city which has been suffering from long-term economic deterioration marked by plant closings, business relocation, and resultant high unemployment, I have been extremely interested in this debate.

As chairman of the House Small Business Subcommittee on Tax, Access to Equity Capital and Business Opportunities, I held several hearings, released a report and introduced legislation on this subject, all designed to focus attention on the need to broaden the enterprise zone concept and present a well-balanced program which could effectively stimulate business activity in our Nation's older centers.

The basic tenet of the enterprise-zone concept is to provide business with tax and regulatory relief as a means to stimulate business growth and expansion in distressed areas. However, I must emphasize that proposals which merely provide tax and regulatory relief are too narrow in focus and will not by themselves cure our urban ills. For example, tax credits and deductions will not benefit startup and early stage development firms which traditionally realize little or no profitability in the first few years of operation. Therefore, tax incentives should only be viewed as a component of a viable revitalization plan and should merely complement existing Federal programs designed to assist business and economic development.

Many State governments have gone forward with their own enterprise zone packages and their experience has shown that tax breaks are only one portion of their entire economic program. A recent article in the Washington Post demonstrates this point by tracing the success of the Norwalk, Conn., experiment. The Norwalk planners reiterate the notion that tax incentives can be extremely beneficial when used in conjunction with grants to assist startup firms in capital formation and to train poor and disadvantaged workers. They also point out that funds for traditional public works programs are necessary for maintenance of a sound infrastructure base.

The reality of the infrastructure problem is that firms will never be encouraged to locate or remain in a neighborhood that does not provide a healthy commercial environment. In fact, several studies regarding business choice of location priorities indicate that tax savings rank below the general livability of a community and the need for adequate city services, such as police and fire protection and—I must add again—a sound public infrastructure.

My proposal, therefore, would target $500 million of Economic Development Administration funds to assist in the maintenance of deteriorating infrastructure and to create a community which will be able to attract business enterprises.

In addition, a balanced plan should address the human capital needs of any community designed for revitalization. Many commentators claim that labor training potential is also a top priority in a business' decision to locate in a particular area. Further, our Nation is presently undergoing major structural changes involving increased automation and technological innovation, and a decline of our heavy industrial base.

The resultant tragedy, in human terms, is a rise in the number of displaced industrial workers due, in large degree, to closing of antiquated industrial plants and increased competition from abroad. Many of these displaced workers have never held another position and presently lack the skills necessary to adapt to our changing economic environment. Although the Job Training Partnership Act will provide a measure of relief for this human capital void, I believe that a well-reasoned revitalization program must necessarily include other components to address the need to train unskilled, disadvantaged workers and retrain employees displaced by the country's structural transformation.

My proposal, therefore, provides a 10-percent jobs tax credit for increasing payroll expenditures over a base period amount, providing businessmen with an incentive to hire new employees. In addition, I broadened the 50-percent tax credit for hiring disadvantaged workers contained in the administration's plan by allowing this tax break to firms which employ displaced industrial workers.

Another essential component of a well-designed incentives program to effectuate a commercial rebirth in these areas and to attract new and growing business, is provisions designed to specifically enhance the seed and working capital positions of these firms. A means to accomplish this task is to utilize the successful components of various Federal programs such as Small Business Administration loan programs by targeting a portion of existing resources to areas which demonstrate the most need.

For example, my bill would increase the maximum loan level from $500,000 to $750,000 for loans granted to firms located in designated areas of distress. To insure that the fundamental goal of job creation is attained, businesses receiving these funds would be required to provide adequate assurance that their venture would produce new employment opportunities. It is unfortunate to note that rather than targeting the SBA loan programs to promote maximum and effective utilization where there is an obvious need, the administration continues to advocate the cutback or elimination of Federal programs such as this.

In addition to public funds, private investment capital is an abundant but often untapped source of external capital, which should play an active role in the revitalization of distressed areas. In keeping with the administration's philosophy of private sector involvement in strengthening the economy, any functional enterprise development design should include investment incentives for corporations and individuals.

For example, the Small Business Investment Company program of SBA should be utilized to attract private capital to needy areas with job expansion capabilities. The bill increases the leverage amount for SBIC's investing in these areas and allows them, in general, to borrow from the SBA on a 4-to-1 ratio as opposed to the current leverage ratio of 3 to 1.

Another mechanism to lure private capital to distressed areas is to provide a deduction to individual investors for the purchase of stock in companies which locate in declining areas. Thus, my bill allows an individual a deduction in the amount of $20,000—$40,000 for a joint return—for the purchase of stock of a small business located in a designated distressed area.

Finally, as previously stated, I concur with the concept of providing tax relief for firms locating in declining areas as a means to enhance small business capital formation internally. Therefore, I have rounded out my job creation initiative by providing tax incentives geared to capital investment by qualified small businesses in designated distressed areas.

These tax provisions are as follows: One, an additional $50,000 of depreciable property may be expensed; two, a 10-percent investment tax credit would be allowed on the construction of new buildings; three, an additional $400,000 of used property would be eligible for investment tax credit; four, a 25-percent investment tax credit would be allowed on the renovation of buildings at least 20 years old; five, the investment tax credit would be refundable up to $250,000; and six, a 2-percent-payroll-based tax credit for contributions to employee stock ownership plans would be available.

On behalf of Andy Ireland, chairman of the Small Business Subcommittee on Export Opportunities and Special Small Business Problems, I would like to point out an issue of immense importance to the small business community. This involves the expansion of the scope of the Regulatory Flexibility Act by certain enterprise zone proposals. These proposals would allow anyone going into business in the designated zone to be able to qualify for coverage under the Regulatory Flexibility Act. This act was not intended to be a vehicle by which major corporations could operate subsidiaries under the guise of being a small business.

Let me conclude by stating that there are no simple solutions or magic formulas for soothing the economic woes of this Nation. Although a well-balanced revitalization plan should include tax incentives as a component, such incentives could be the least important. More specifically, it is essential that we maintain adequate financing for existing Federal programs. Whatever plan is ultimately developed, it should insure adequate funding for infrastructure improvements, job training programs, and the very important seed capital. Therefore, I believe that the magnitude of particular tax incentives can be scaled down to coincide with eventual revenue impact conclusions.

Again, thank you, Mr. Chairman, for the opportunity to express my opinions on this important issue. I would, of course, be willing to entertain any questions from this panel concerning my testimony or legislation.

I have as an addendum the questions answered in writing that came out with the request for the hearing notice. They are attached, and I have tried to be specific in each of the questions asked.

[The questions and answers follow:]

POLICY ISSUES ADDRESSED BY THE COMMITTEE HEARING

In having outlined the conceptual and underlying rationale for my bill, I would now like to address some of the specific issues raised by the Committee on Ways and Means.

Question 1. How should targeted distressed areas be identified and defined?

Answer. As provided by my bill, H.R. 2375, I believe that incentives should be targeted to distressed areas which have a population of at least 10,000 people and meet one of the two following criteria. First, the area should have an unemployment rate of one per centum above the national average for the most recent 24 month period. Second, (in lieu of meeting the first criteria) the area should have experienced or be about to experience a sudden economic dislocation in job loss that is of significant magnitude and effect.

Question 2. What tax incentives are most likely to aid in the revitalization of a distressed area?

Answer. In selecting tax incentives for my bill, I tried to target my approach towards those businesses or industries which are most apt to invest and expand in the Nation's distressed communities. This led to my emphasis on targeted aid to small and medium sized businesses. I selected this approach based on documented evidence that smaller firms create approximately 80 percent of all the net new jobs in the United States. Moreover, I chose incentives which would encourage the rehabilitation of older existing structures.

Accordingly, the following tax incentives are included in my legislation and are, thus, designed to meet the unique capital formation needs of small firms:

First, an expensing allowance on property purchases of an additional $50,000;

Second, a 10-percent investment tax credit on construction of new buildings;

Third, an additional $400,000 of used property would be eligible for the investment tax credit;

Fourth, a 25-percent investment tax credit would be allowed on renovation of buildings at least 20 years old;

Fifth, the investment tax credit would be refundable up to $250,000;

Sixth, a 2-percent payroll-based tax credit for contributions to employee stock ownership plans by qualified job expansion businesses;

Seventh, a 10-percent jobs tax credit for increasing payroll expenditures over a base period;

Eighth, a deduction in the amount of $20,000 for individuals filing separate returns ($40,000 for joint returns) if an individual investor purchases the stock of a small business in a designated distressed area; and

Ninth, a business which hires qualified displaced employees would be allowed a 50 percent jobs tax credit.

Question 3. How should the revenue implications of proposals to provide tax incentives for distressed areas be assessed?

Answer. The revenue implications of such proposals should be evaluated in terms of the increased level of economic activity in the community and in light of the jobs created or retained. For example, one authority indicates that certain economic development programs are estimated to have created or saved over 20,000 jobs. This can be translated into a reduction in demand for unemployment compensation or other social service costs. More significantly, this commercial revitalization would increase local tax revenues, thereby affording local governments greater financial independence from the Federal Government. This would enhance their ability to meet for themselves, the necessary cost of public services, such as police and fire protection.

Question 4. What are the relative advantages and disadvantages of tax incentives as compared with direct spending programs in addressing the problems of distressed areas?

Answer. Although targeted tax incentives promise to provide a measure of relief for areas suffering from long term economic deterioration, they should not be considered as a cure for all of our economic problems. Instead, Congress should adopt an approach which is well balanced and comprehensive in nature.

In my bill, the Enterprise Development and Industrial Revitalization Act of 1983, I conceptually utilize a blend of current Federal programs with targeted tax incentives. In addition to tax incentives, my legislation ensures that the working capital or seed capital needs of businesses are met. Further, it provides communities with funding for infrastructure improvements and for technical planning and assistance. Finally, H.R. 2375 utilizes jobs tax credits to encourage the hiring of the structurally displaced worker and other chronically unemployed.

Question 5. Should the use of certain industrial development bonds be limited to distressed areas?

Answer. Tax exempt small issue industrial development bonds are an important economic development tool which can be utilized by states and local governments to spur business investment and expansion. Moreover, IDBs are an important source of low cost capital for small firms, which are particularly sensitive to high and volatile interest rates. To the extent economic resources are scarce, I would support an approach targeting industrial development bonds to distressed areas.

Question 6. Is it fair to have special preferential tax rules apply in a limited number of distressed areas?

Answer. In analyzing the need for legislation of this type, it is important to emphasize that these areas have suffered severe economic dislocation and job loss, which is attributable in some cases to national policy. Thus, this type of legislation would ensure a more balanced approach to national problems and priorities. Moreover, this kind of approach is no different than the way certain industries are currently favored by the Tax Code to receive increased economic benefit.

Mr. RANGEL. We want to thank you for the contribution you have made on this issue and certainly for sharing with us the experience you have had as the chairman of the House Small Business Subcommittee on Tax, and particularly that your testimony had many questions that would be raised by other members of the committee with specific answers to those questions. And I look forward to working with you and your staff as this committee tries to work out something that would meet the administration's approval and can gain support of the members of this committee and the House.

Mr. Conable.

Mr. CONABLE. I have no questions. But thanks, Hank, for your interest and support. We appreciate it.

Mr. NOWAK. You are very welcome. I hope we can move forward, because I do think that there are questions of equity raised. And is it fair when you look at the whole Federal tax system and you look at the overt programs and growth in some areas—the Tax Code is replete perhaps with not targeting areas, but we certainly target specific industries and types of occupations—and you look at the amount of overt programs going for subsidies in other areas of the country where certain products are produced, all of that, to some degree, is targeting.

What we are looking for is a way to have some of that reach the urban areas where we are finding a great displacement over the last few years.

Mr. RANGEL. Mr. Guarini.

Mr. GUARINI. Thank you, Hank.

I was the beneficiary of your testimony, and I share with you the concern for small businesses. This should, of course, be targeted for jobs.

I wonder whether or not you feel that the low-interest loans and capital formation should be made available in addition to these tax incentives? You can have all the tax writeoffs in the world and you can take them a year later, and if you don't have any profits, they don't mean a damn thing.

How do we get the businesses off the ground in the first place? You just can't do it by saying there are no taxes; you have to make sure that there is the cash flow, that there is some kind of a loan arrangement that is made in these areas where we can have the necessary capital formation to get the businesses moving.

Mr. NOWAK. You know, I refer to that in my testimony, the seed-capital problem, and when you look at the whole composition of how they should fit I believe that the tax incentives are a small part perhaps in some areas.

In another circumstance—because we are trying to generalize a bill where you will have many specifics that are not going to fit the generalization—but I think the problem is trying to fit together the kind of incentives that provide for that seed capital, first of all, which we have tried to do by targeting the SBA and looking at the infrastructure problem to target that, and to take the SBIC program and give them a little more incentive to put money into this area and giving individuals the deduction of up to $20,000 to put into a small corporation and try to use all of that for additional reasons to invest, and that would provide the seed capital, I think, by that kind of targeting.

You are absolutely right; the pure tax incentives won't do anybody any good. In the average business, you will go for 3 years probably without any substantial return until you start to make a profit, so that you can use the deductions. It is an element, but it is a postponed element possibly.

If we can get the infrastructure together through the EDA—an existing Federal program—if it is supported and targeted, it can have an impact. If you don't target it, of course we have wasted another great resource. If you combine the infrastructure help and seed capital help, which you mentioned, along with some job retraining that will be absolutely necessary, I think, and then the incentive comes in 3 years, you have a total package to offer, then think you will have a successful zone.

Mr. GUARINI. Thank you.

Mr. RANGEL. Mr. Schulze.

Mr. SCHULZE. No questions, Mr. Chairman.

I want to thank our colleague. I agree with him and I hope we can work something out and develop this into a consensus piece of legislation.

Mr. NOWAK. Thank you very much.

Mr. RANGEL. Thank you.

Mr. NOWAK. Thank you, Mr. Chairman.

Mr. RANGEL. Congressman Wes Watkins of Oklahoma. We welcome your testimony and thank you on behalf of the House for bringing in the rural aspect to what was basically an urban renewal bill.

STATEMENT OF HON. WES WATKINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. WATKINS. Thank you, Mr. Chairman.

Mr. RANGEL. We thank you for your contribution in that area.

Mr. WATKINS. Mr. Chairman and members of the committee: Mr. Chairman, at this point I want to say to you I truly feel that rural

America has moved from the back of the bus to the front of the bus.

Mr. RANGEL. The bus hasn't moved out of the depot, but I agree with you.

Mr. WATKINS. Let me tell you, it hasn't been without sit-ins and strikes and marches, because we were not accepted at first.

Mr. Chairman, this is not the same bill that was introduced 3 years ago in 1980.

Mr. RANGEL. I gather.

Mr. WATKINS. It was then an urban enterprise bill, and I had to introduce a rural enterprise zone bill to even get any attention for the poverty pockets of this country in rural America.

You know, I noticed that I was not invited to the table at the same time a while ago with the inner city people, and I resent a little bit Mr. Kemp's and Mr. Garcia's oversight in not including rural America in the beginning.

Mr. RANGEL. We had lunch with those fellows and——

Mr. WATKINS. The people in rural America feel like, "Hey, it is difficult for somebody to recognize us." For example, Ed Koch was critical of rural upstate New York in the Playboy magazine interview when he was running for Governor, and he didn't make it to the Governor's chair.

I think more than anything, the people in many of the areas of rural America, the rural poverty areas, are truly forgotten people. This is not the same bill we had in 1980. This past spring of 1982, administration officials realized they had erred, had gone astray and realized they must recognize that we have economic problems in rural America. They were willing to make a marriage and make a part of this Enterprise Zone Employment Development Act, one-third of the enterprise zones being in rural America, where poverty probably is even greater than in some of the inner cities.

This is not a new idea. This is not an idea that just was born with the Reagan administration. Originally, I heard of this idea of tax incentives and credits going into poverty pockets, whether inner city or rural, back in 1968's Presidential campaign with Fred Harris, as being a way to possibly solve some long-term, chronic unemployment and problems in depressed areas.

As I have searched for these answers, I realize this bill may not have all the answers but, Mr. Chairman, as Democrats we should be willing to do everything we possibly can in any reasonable form or fashion to build jobs. This is a jobs bill as far as I am concerned.

This is one way of trying to structure the investments of this country so we can build jobs. It is a tool that we must continue to provide for our people.

I know my friend, Jack Kemp, kept calling this an inner city bill. I would not be sitting here today if it was the same bill they introduced in 1980. I have personally secured 49 of the cosponsors on this bill because I believe there is fairness and equity in it now for the people in poverty conditions of rural America. I think Mr. Kemp needs to recognize the Appalachias and Ozarks and foothills of the country that have poverty. These areas are not even recognized by some of the major businesses and industries of this country.

I would like the chairman of this committee to picture with me, just briefly, if you would, the areas I am talking about: Areas of long-term, chronic unemployment depicted in John Steinbeck's book, "The Grapes of Wrath." Picture the people leaving the cottonfields and poverty of Appalachia and the Ozarks and going into the Californias and Detroits and Harlems looking for a hope and a dream.

Mr. Chairman, you know the problems that you have there in Harlem. But picture with me those areas that were raped of the people, people that were leaving to try to reach a dream, or a hope. In Oklahoma we have had some growth, mainly in the larger cities with infrastructures that have the adequate water, adequate sewer, adequate industrial parks, and health care. But what about Wapanucka, Okla., that has only two streets and the buildings are falling down, or the community of Sasakwa or Wild Horse, or my home community where I grew up as a boy, Bennington?

Mr. Chairman, where I grew up at one time we had two banks, three cotton gins and five thriving streets of businesses. Today there is only one store, no banks, no cotton gins, no streets, and one little post office.

In most of the counties I represent, more than 50 percent of the people have had to leave in a search for a job, not because they wanted to leave, but because they had to leave because of economic conditions. Many of them are your loved ones. But let me say, Mr. Chairman, most didn't want to leave and most want to come back home if they only had a job.

People talk to me about my area being welfare, and I have a lot of problems with this because some of my people just don't understand. They say, "They don't want to work." You know, in Coal County, where there has been 23-percent unemployed at one time. Since we mined coal there in the 1920's, the population has decreased 60 percent.

We finally got a little company looking at building eight jobs there. We had 350 applicants for those eight jobs. They want to work. They want to get off welfare if they have a full-time, 40-hours-a-week job. They are not going to quit welfare and just go out to mow lawns for just a couple months because it will take them 2 or 3 months to get back some income if they quit.

But they will quit welfare if they can get a full-time, 40-hours-a-week steady job, and I think the enterprise zone is a tool that will help build jobs, along with the other tools that many of us have backed and pushed for in the past.

As I said to my friend and colleague, Parren Mitchell, who was here a while ago, "Parren, you haven't seen poverty of the blacks until you go to the rural poverty off the highways and off the byways and into the back areas of shanties and shacks. Many of those people don't even have running water." They are people who are willing to work if they had a job and, Mr. Chairman, that is what I am pleading for. That is why I have been willing to march to the White House and wherever else I had to go to just try to get rural America included, to be recognized as being a part of this great country of ours.

I am proud to say that the administration has finally recognized and included rural America in this bill. That is when I was willing to start putting out energy and effort to get the 49 cosponsors.

Mr. Chairman, let me tell you why. This past year, two-thirds of the American farmers' income—listen to this—two-thirds of the American farmers' income came from something other than farming. They had to have a job somewhere else to insure survival, in order to put food and fiber and clothes in the homes of America and for a cost of only 16 percent of our disposable income.

Mr. Chairman, let me point out why this is important. Rural America lacks investment capital from banks. Over 30 percent of the counties in the United States do not have savings and loan institutions. I repeat, Mr. Conable, over 30 percent don't have savings and loans. They are not in rural areas, they are in urban areas.

Two-thirds of the 3,000 counties of America don't have mortgage bankers. Those are not urban counties that don't have them, those are rural, poverty counties that do not have mortgage bankers. Over 90 percent of the counties don't have investment bankers. The economic lifeblood, investment capital, is not there. It will not be the Fortune 500 company that comes and builds in the rural communities. No, we can't even get the Fortune 500 companies to look at us. We don't have the infrastructure. We don't have the water, the sewer. We don't have the health care.

But we hope and pray that we can get companies with the 8 to 10 jobs. Eighty percent of the businesses in this country are in the small business area that provide 8 to 10 to 15 jobs. But, you know, that would be the biggest income in 95 percent of my counties if I could only get 10 jobs in many of my communities. That is what we want.

I have even gone to the extremes of putting together an entrepreneurship program in my area. I am going to this extent to try to develop small business jobs. Everything you have on at one time was an idea. Everything you see in this room was an idea, an idea for a new product, and that means a new business, a new business means jobs, and that is what we want.

I have put together a rural entrepreneurship program with an industrial innovation center "think tank" trying to develop new products, new ideas, new inventions, technology applications, or whatever, just to build jobs for our people. The smokestack companies are not going to come there, not the Fortune 500, because we lack investment capital, we lack the opportunities.

I think this is an important area to this great country of ours. If we allow the fiber of our rural areas to weaken across America, then we are going to long regret it.

Yes, this is not a perfect bill, Mr. Chairman, but let's begin. Let's begin a program that might reach our people in some of these needy rural areas of our great country.

Mr. Chairman, I thank you so much for allowing me to be here as rural America meets Harlem and Harlem meets rural America. As you said, we probably have more in common, especially when it comes to economic conditions of the rural poor.

Mr. Chairman, I would like to leave this as my testimony and ask unanimous consent to revise and extend the remarks I made here today.

Mr. RANGEL. Without objection.
[The prepared statement follows:]

STATEMENT OF HON. WES WATKINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Thank you, Mr. Chairman, Members of the Committee. I appreciate the opportunity to appear on behalf of H.R. 1955, which I think is much needed legislation. It will provide the tools which can be used in chronically economic depressed rural areas of the United States for the creation of new industry, new jobs, and new income to the Treasury of the United States and the states in which new industries are located.

We are fortunate in that we don't have to speculate on whether or not the Enterprise Zone Employment and Development Act concept will work; it has already proven itself as reflected by the Sabre report, which I am sure will be more fully discussed.

Two years ago today, I was appearing before the House Agriculture Subcommittee on Conservation, Credit and Rural Development on behalf of H.R. 4576, which I introduced in the 97th Congress. My bill called for a Rural Enterprise Zone Development program similar to the one proposed by the Administration for urban areas. H.R. 1955 is a wedding of the two—rural and urban, allowing 33 percent of the enterprise zones to be established in rural areas. That 33 percent is reflective of the approximate percentage of Americans who live in rural areas—one out of three—and as I frequently remind my colleagues, we in rural America sometimes feel like we are the forgotten folks.

The need for such a concept is even more evident today than it was two years ago. We have seen, in the past two years, national and world economic conditions which have reached depression or recession stages, depending upon whether or not one was employed. We have seen vast changes in recent years in the way Americans earn their living if they do have a job. We are being told almost daily that we must change and adapt to a world that is changing; to restructure our economic base or face a future in which we in the United States are relegated to a position of an industrial has-been. The United States is being likened to the dinosaur which, because of its very immutability, became obsolete. We must change.

The Third District of Oklahoma, which I represent, has areas which have bad times even in good times. Two years ago, Oklahoma had an average unemployment rate of 3.6 percent—and we ae told that 4 percent unemployment equates to Full Employment. At that time, five of my 20 counties had rates over 7.6 percent. During 1982, six of the 20 counties had rates which averaged above 10 percent. During most of 1983, 16 of those counties had double-digit unemployment rates as high as 24.3 percent. During the first five months of this year, two of those counties had average unemployment rates of 17.1 and 18.9 percent. That's the average.

It's a rural area. I have only two counties with populations in excess of 50,000 people. The land is generally poor, thin, leached out, and worn out. But as some of my colleagues from Illinois, Iowa, and Ohio know, even good land in these days does not guarantee a farmer a living. Yet, agricultural production provides the greatest source of income. In 1982, Oklahoma's farmers average $14 net income, so you can imagine what it was like in the Third District. Two-thirds of the farmers' income, the U.S.D.A. tells us, comes from off the farm. The farmers all have to work in town for the privilege of farming. They have to have a job in order to subsidize the food for the consumer.

I surveyed former residents and 94 percent of them told me they would like to leave the "plantation" systems in the inner cities and either return home or live in small cities and rural areas—if they can make a living. A part of this nation's ills of today can be traced to the changes which sent people from the farms and small cities and towns into the large cities. As we see the budget figures for urban needs, we realize the costs of that change. I don't think this bill is going to reverse that trend, but it should provide the mechanism to try and keep those who want to live, work, and raise their families in rural areas.

Even before I came to the Congress, I had been working to try and improve the economic lot and quality of life in rural America. I learned through hard and frustrating experience that to create opportunities, efficient utilization of local resources must be maximized to maintain and improve the economic and social health of rural America, and therefore, the health of all America. Rural America lacks investment capital from banks; 40 percent of the counties in the U.S. do not have savings and loan institutions; over two-thirds of the nation's 3,000-plus counties do not have mortgage bankers, and an even larger percentage lack investment bankers.

In Oklahoma we have searched for smoke-stacks for a generation, and we've found a few. But they are concentrated in larger areas where the new buzz-word, infrastructure, is in place. General Motors had a difficult time convincing some of their employees in California to move to Oklahoma City; it is highly unlikely that many can be convinced to move to Wapanucka, or Sasakwa, or Wildhorse, or my boyhood home of Bennington. Yet we have, in frustration, initiated industrial incubators which are creating new opportunities for jobs. Jobs can be created: We can create more jobs with the tax incentives proposed in H.R. 1955 in place.

In rural America, we must create new jobs and H.R. 1955 can add the extra tools needed to do the job of providing jobs. On all our minds these days is the question, "How much is it going to cost?"

H.R. 1955 is not going to cost anything unless new jobs and new industries are created or existing industries are expanded. Unless there are new jobs, there is no loss to the Treasury because 10 percent of nothing is still nothing. And if we do succeed, funds will be produced from income, social security, property and excise taxes to offset any tax credits.

One other point I would like to make: We as a nation and as individuals can no longer expect to survive with continued deficits which are mind-staggering. We can not expand the GNP by the philosophy of shutting everything down. There will come a point, which I feel we are nearing, where we can not cut further. We have a choice—we can do nothing, but if you and I want to provide the quality of life for our children and future generations, we have no alternative but to expand our GNP and broaden the economic base from which this GNP is derived.

Let's look at the opposite to cutting; let's build that economic base by the creation of new wealth, new jobs, and new industries which will generate new tax revenues on the local, state, and national levels. Let's prime the pump and began to rebuild rural and urban America. Let us begin now by enacting H.R. 1955, before it is too late.

Thank you.

Mr. RANGEL. The Congress is indeed fortunate to have your eloquent voice to represent the interests of rural America and indeed the poor of those economic communities. I don't ever want you to feel, as long as we serve together in this Congress that you walk alone in wanting the American dream to reach every nook and cranny in every village and town where the poor folks live, regardless of whether they come from the city or rural areas. You worked hard on this bill and you changed the concept to have it representative more of what America is, rather than just the inner cities of America.

I just wonder, how many areas do you think annually will be selected by the Secretary of HUD to be designated for this type of treatment in rural communities?

Mr. WATKINS. It is my understanding there will be 75 total in 3 years, 25 the first year; if we have a third in rural America, that would be approximately eight the first year and if we get the ninth one, that would be great.

Mr. RANGEL. If we had eight or nine, how many would be the Wapanuckas, how many would we have in the United States?

Mr. WATKINS. I have a number of Wapanuckas right in my district. But there are many in the Ozarks and Appalachia areas that I am personally familiar with, and in the deep southeast part of the State where I live, on down into Louisiana. There are many small communities such as I described, in those areas.

I hope the concept allows us to include belts linking several areas that may be more than just 500 to 1,000 people, but would make it a very attractive place to build industry and jobs to where our people can drive. If we live even 20 or 30 miles away, it doesn't take us but 20 or 30 minutes to get there.

Mr. **Rangel**. You feel satisfied that if we have 8 or 9 in the first year and 25 over a 3-year period at least you have done your job in bringing some people closer to the American dream even if Oklahoma was excluded?

Mr. **Watkins**. I feel like we have made a step forward. I do feel like that probably the poverty conditions of my area of the State of Oklahoma, with long-time chronic-depressed economic conditions there, somewhere along the way it would fit into probably having an opportunity.

Mr. **Rangel**. It was indicated that 3,000 communities would fit in, but only a few were chosen.

Mr. **Watkins**. Having such bad economic conditions, sometimes the problems far exceed the benefits. But I think in a program like this, many of the rural areas would be chosen. Hopefully, we could see it working and we could expand it. And I don't deny the fact that I think that we could double that figure the first year.

Mr. **Rangel**. When you went over to the White House, you didn't get any particular support for Wapanucka, did you?

Mr. **Watkins**. Unfortunately, I didn't. Kind of like Harlem.

Mr. **Rangel**. Next time you march, include me with you.

Mr. Guarini.

Mr. **Guarini**. Thank you for bringing together the two worlds of the urban and the rural. It is interesting to note historically that this concept of the enterprise zone started in a rural area. It actually was to build up in England areas that they wanted to delineate where they could move populations and develop the rural areas, so the whole thrust of the bill adopted from England, as I understand it, was a rural enterprise zone. We are really talking not about urban or rural, but just where there is a distressed area. So better nomenclature would be distressed-enterprise zones, which would be more explanatory as to what we are trying to accomplish by the overall bill.

The only other thought I would like to add is do you feel that the tax arrangements alone are sufficient or do you think that we should make use of a national development bank which, of course, is under discussion right now and probably will be coming out of the committee, according to what I understand, in order to be able to give some seed moneys and to have some capital formation and be able to present some low-interest loans so we can get things going?

Mr. **Watkins**. In the rural-enterprise-zone bill I introduced, targeting of some of the grant moneys was included for water, sewer, and other facilities to help build an infrastructure. I think we could combine some targeting and be more able to assure the success story of enterprise zones. I might say I am pleased the administration's bill was changed from an urban-enterprise-zone bill to the Employment, Development Zone and Employment Act. They have changed the title and slope of it to more or less fit what I think is the direction we need to be going. I mentioned to Mr. May a while ago that, as in my bill, targeting of some things is needed to assure success.

Mr. **Guarini**. While we looked at England for help, there are other countries in Europe which are successful. In Italy, there is Acasa Mesa Jorda, an area in the south which they have developed into industrial zones in order to take care of the large agricultural unemployment, which has moved into the cities and created tremendously high unemployment, and they have used every tool, not just tax tools, but every kind of tool, including capital available at low interest rates, and sometimes subsidies, in order to really do the job, because when you take 25 zones, each in 3 years, and then you are still working with the dials, and then you are dealing with a half of a deck to begin with, it will certainly take us the next decade to really say that we have done a job in distressed targeted areas.

Mr. WATKINS. I agree. Back a few years, about 20 years ago, I served as the State president of the Oklahoma Future Farmers of America and I traveled the State making speeches. On more than one occasion I mentioned that 26 percent of us in American agriculture were producing the food and fiber for the rest of the people in the country. Today, it is down to 3.5 percent producing the food and fiber for this country and 25 percent of the food and fiber needed around the world.

Where have those people gone? They have gone into the larger cities and industrial complexes, many with only the dream and hope of a job, but when they get there, they find the jobs are not there.

Mr. GUARINI. And we have done nothing to recognize that.

Mr. WATKINS. That is right. We wrote the Marshall plan to help rebuild Europe, but we did not see fit to help rebuild rural America as the people left to find jobs. We wrote a massive urban renewal program in the 1960's resulting from the rioting and the people leaving the inner cities. The rioting in Watts was started by a young man, the son of people who lived 9 miles from my hometown, who went to California searching for jobs. They relocated in the Watts area.

After they were there for 20 years, they found out the dream wasn't there. The riot that occurred was started by that person from Oklahoma who went there searching for a job and found only problems and discontent.

Yes, we haven't seen the value of placing the investment necessary to allow our people to stay and work and raise families where they want to stay.

Mr. GUARINI. Then we wonder why there are broken families, high unemployment, high crime, and social problems.

Mr. WATKINS. You are right. That is the gospel I am trying to preach to the White House. They are placing priority on the family and home. Aren't we big enough in this country to try and reach the hopes and dreams of our people? If we are big enough, then we should try to let them live and work and raise their families back home, where nearly 90 percent of the people who left my area said they would like to, where their roots and loved ones are.

I made a speech in one of my communities not long ago about what I was trying to do to rebuild the area. I said, "How many of you have relatives in California?" Over 90 percent had loved ones who had left, and wanted to come back. But they have never had the job to come back home to. As a result, they have lived in sadness, they have lived with social problems, and they left their loved ones behind. There are people at home sitting on the front porch waiting for their return today.

Mr. **Guarini**. And through no fault of their own, but because of the new technology, the new equipment, and the new way of life that there was nothing for them in the rural areas, they had to go to the cities and they came up emptyhanded.

Mr. **Watkins**. That is right. In my area, we were 20 years behind in agriculture technology. I drove a team of horses myself when I was a youngster. I actually fertilized cotton by using a snuff box because then we didn't have the technology.

Now we have the technology that takes 12 or 15 rows at one time. We don't have the large need for children as a labor force living in the rural areas, but we are producing 20-fold the production we had when I was a kid. We didn't recognize what we were doing with technology. We didn't recognize we were displacing people. The largest movement of people, I will point out, the largest migration of human beings ever recorded in the history of our country was when we left rural America in the thirties and the forties and fifties and went into the urban centers of this country. We did not then see the need to do anything about it.

Think about that, the largest movement of our people, uprooted, leaving their loved ones and their hopes and dreams behind in the search for that job, a hope or dream somewhere else. But I have never seen the reason why we didn't try to meet those hopes and dreams where they want to be.

Mr. **Rangel**. Mr. Conable.

Mr. **Conable**. I have no questions. I want to thank you for the 49, though, in particular.

Mr. **Rangel**. Thank you. We look forward to working with you, Congressman.

Congressman Hal Daub from Nebraska.

STATEMENT OF HON. HAL DAUB, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. **Daub**. Mr. Chairman and members of the committee, thank you very much.

I have been looking forward to this opportunity to testify. It is an important subject. I consider the issue of the subject of this hearing and particularly the bill, the enterprise-zone approach, one of the most important issues before this Congress. It enjoys, as we all know, bipartisan support. It was fashioned from a bipartisan effort. It is a bill that is supported by Members from both sides of the aisle and it crosses all ideological lines. It is an idea that has already been embraced to one extent or another by 19 States.

I want to be brief, so I am going to summarize my testimony and particularly in the end I want to address a question that has——

Mr. **Conable**. Your entire testimony will be put in the record. A summary would be appreciated.

Mr. **Daub**. I appreciate that offer, Mr. Conable.

Mr. Guarini asked a question on tax incentives and I want to address that at the conclusion of my testimony. Over the last 30 years, we have seen many of our urban areas deteriorate. During the last 20 years, the Federal Government has spent billions in efforts to revitalize them, very often without success. The continued presence of blighted areas within our cities has led to a generation of young people whose lives and backgrounds make it very difficult for them to ever enter the work force and live lives free of dependence and despair.

As we surveyed around the country, it is clear that the past efforts of Government to rehabilitate those areas have failed and are unlikely to be successful in the future even if the amount of resources were increased.

As Members of Congress, we have a real and immediate responsibility to seek new answers to this problem. The enterprise zone concept is an answer and one that can be initiated with a minimum amount of Federal dollars. It is an experiment with little downside risk, but offers as a reward the possibility of great success and millions of saved lives.

It offers the people of this country who have lived without hope for so long a real opportunity. To ignore a potential of this sort is to ignore these peoples' needs and encourage this committee to do everything possible to bring life to this legislation and hope to our Nation's cities.

This is not a complicated issue. There are several facts that are irrefutable. One, no amount of Federal assistance for training, education, or other needs is going to make a difference if jobs are simply unavailable in certain areas.

Second, regardless of the surplus labor available as low-cost real estate, we are not going to see companies move into these areas unless there are real financial advantages. Enterprise zones will provide the incentives to move companies into these areas and thus provide the work opportunities that are essential to assist the unemployed.

The legislation before this committee is the product of a great deal of input from small business owners, local and State officials, urban and rural interests, as well as the Congress. It is a good bill that reflects the increased knowledge and experience that we have now in this area. Studies have shown that in nine of the States where the concept has been tried more than 17,000 have been created and $450 million in new investment targeted to areas that would have seen very little otherwise.

We are not talking about just new businesses either. Visiting a zone in Connecticut, the Washington Post urban affairs writer noted that the zones "have been remarkably successful in keeping more than a dozen existing firms from leaving town." The Spiegel Corp. cited a zone designation as a major reason for its decision to spend $20 million to renovate its facility in a Chicago neighborhood rather than to move it out of that neighborhood along with its 2,000 jobs.

The enterprise-zone concept is one that is proven and one that this Government cannot afford to ignore. Without a real change in the way we have addressed the problems of our cities, experience has shown that we are not going to see real change. The States that have been willing to experiment with this concept have benefited greatly and it is now time for the Federal Government to give it a try.

Again, I commend the committee for its interest in enterprise zones and I hope that the whole House will have that same opportunity very soon.

Let me address for a minute the tax incentive question. I was interested in Mr. Nowak's testimony. He and I serve on the Small Business Committee. I think that the incentives built into the bill, although they may not be immediately remunerative, I agree if you don't have gross income to move to adjusted gross or to net into profit, be it an individual treated with the salary incentive or a corporation or proprietorship business form, there isn't anything against which to offset the deduction, the shelter or the tax incentive so-called, but in fact all the elements of the bill, as I think Mr. Conable would agree, are incentives to begin planning to move in this direction in the beginning.

They give that entrepreneurial planner a chance to take a look at a long-range plan rather than just tomorrow's advantage, because if it were just tomorrow's advantage, I agree there is no incentive. It gives a chance to look at the long-range benefits of a series of tax incentives and I think for that reason many will decide to take advantage of this experiment that may not have decided to do so in the beginning.

They may not have a bottom-line result, but I think they form a package of ideas that attract the planner to look at the second, third, and fourth year and reach for the profits that may not be there in the beginning. It is a chance for the planner to decide how to redeploy older capital and old buildings, and I think from that point of view there is a method of conserving cash that might otherwise have to be borrowed, might other-wise be so much money they couldn't borrow it in the first place, because the requirements in the second and third year will be less as a result of those opportunities to plan to use those tax incentives in the beginning.

As a member of the Small Business Committee, I want to note that my chairman, Mr. Mitchell, is here. His amendments, I think, are constructive as well and our future demographics and capital use shifts for small business lead us to the concept which the committee today is hearing and I really hope that we move the matter forward in a consensus way.

It seems to me that your committee has that view in mind. It is an objective that I am proud to be able to be here today and support.

Mr. RANGEL. Thank you for your contribution and that of your committee. We look forward to working with you and your staff to see if we can't get bipartisan support for the bill.

Mr. Conable.

Mr. CONABLE. Thank you, Mr. Daub.

You have confirmed your expertise and your background.

Mr. RANGEL. Mr. Guarini.

Mr. GUARINI. Thank you very much for your comments, particularly with reference to the tax tools that are used to bring us out of the quagmire that we are in. As an early sponsor of this bill, I fully agree with you. The only question I ask is, Is there more that we should do in order to get our momentum rolling? There has to be some kind of capital formation put into these areas. I am concerned that if a company goes in and builds up an enormous amount of tax credits, it will be subject to a takeover for the carryovers and tax losses that it has for another company to take advantage of, so that you start getting corporations playing games instead of people getting jobs. The bottom line is what we are really trying to do is put America back to work and give people jobs, not create atmospheres where tax lawyers can play the capital-gain and capital-loss situation to their advantage.

We have had enough of that in this country and I think our country has been the loser from much of it.

Mr. DAUB. I share my colleague's concern about abuse, particularly when one offers the carryback or the carryforward. I would think, however, because of the way in which the beginning business can situate itself under the rules of the bill as now described and commence to grow and employ, that it might be wiser not in the first 3 years of the experiment to place limiting language on the potential attractive use of a built-up carryover for acquisition, takeover or larger conglomoratization of that small pocket of business in an urban or rural area now employing people.

I think we should leave that as a good question to be monitored, if I can be candid. Rather than jumping in and saying, why we want to prevent that, I don't know that we ought to find it precautionarily or a negative way something we ought to prevent or admonish that we don't want to occur. What is wrong with building a new business in a core-deteriorated city that has had mass-outmigration, getting the sewers, water, bridges, roads, lighting and a safe place to work rebuilt, and if somebody wants to take advantage of it because there is some tax carryover left and it is now a viable, ongoing business——

Mr. GUARINI. If they stay there, but if they take the loss, which is carried forward and collapse the business in that urban-enterprise zones and go on with their business in some other area, they have used us. Instead of having put something back into the system, they have taken something out of it. Too often the committee writes rules that good tax lawyers look through for loopholes and we spend all our time trying to close them.

Mr. DAUB. I agree. Rather than putting it into the bill, looking at the size of concerns that may be utilizing the first 75 pilot areas, I would think that there aren't enough possible carryforwards and carrybacks to make it attractive. In fact, if we succeed and those figures start to look that large, then legislate some limitation if we see an abuse occurring. But rather than legislate a fear of that abuse in such a fragile political coalition that has come together for the legislation in the first place, I agree that the abuse could occur, but I wouldn't want to impair the bill's efficacy or other business capital coming into these areas on the theory that some day we are going to take away something that you may have created in the first place.

I appreciate your concern.

Mr. GUARINI. Thank you.

Mr. RANGEL. Mr. Duncan.

Mr. DUNCAN. I have no questions. Thank you very much.

Mr. RANGEL. Mr. Schulze.

Mr. **Schulze**. No questions, Mr. Chairman, but I would like to thank our colleague for his very cogent testimony and presentation.

Mr. **Rangel**. Thank you very much.

Congressman Mark Siljander from Michigan.

STATEMENT OF HON. MARK D. SILJANDER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. **Siljander**. Thank you, Mr. Chairman.

I will be brief with my statement. I would like to express my sincere appreciation for the opportunity to speak before you and my fellow members on the issue of free-enterprise zones. I prefer not to call them urban-enterprise zones, because I also, as my former colleague who testified earlier, Mr. Watkins, I also represent a rural district.

It is my hope that these hearings, however, will demonstrate the positive effects that enterprise zones will have on America's desperate cities, both rural and urban. I am also grateful that the committee will hear the testimony of representatives of the city of Benton Harbor, Mich.

This city, from my district, is a prime candidate for an enterprise zone. I will discuss later in my testimony why Benton Harbor is a good candidate for a zone, suffice it to say for now that the representatives from the city have my utmost respect and admiration for their efforts to promote economic recovery in Benton Harbor.

Mr. Chairman, it is rare today to find a major American city without an area totally deteriorated, lacking in industry, services, and population. Middle- and upper-income residents have moved out, and small businesses, the key to new growth and new jobs, have gone to the suburbs or entirely new regions of the country.

Although the population of the country as a whole has been growing, a mass migration of population and jobs has occurred from the Northern cities. This situation has produced chronic unemployment, sluggish economic growth, a declining tax base, rising tax rates, and an extremely high cost of living for us all.

We have seen program after program from the Federal Government attempt to assist the people in the inner city, and yet we have seen marginal results at best. Many of the programs that have been implemented among the poor have actually served to perpetuate poverty, not eradicate it.

As George Gilder has noted in his book, "Wealth and Poverty," the situation in the inner and rural cities, where all these poverty programs have been concentrated, is worse today than it was two decades ago.

Here is a case where we in Congress must confront some realities and facts. The Federal Government has been tried and found wanting. It enacted its myriad of programs, and concentrated them specifically on the black poor in mostly the central cities of America; and the result today is that 6 out of 10 black children are brought up without a father in the home.

This is a desperate tragedy, and it is directly attributable, and can be demonstrated to be attributable, to those very programs the Federal Government thought could solve the problem of poverty.

Capitalism is the system which is closest to the family and most resembles the family. Free enterprise is the system that makes it possible to give productively, to give in a way that really does help other people by creating jobs and markets and opportunties for others.

This is the essence of capitalist success. It derives from the crucial institutions of family and faith, and is founded on the proposition that you give and you will be given unto.

The reason, Mr. Chairman, that I have spent so much time describing the virtues of the free-enterprise system is that it is the one system this Government has failed to try in the inner city in the last 20 years.

I find it ironic that a nation which has become the strongest and most innovative in the world has not turned to its own success story to solve one of the most serious problems of our time.

Mr. Chairman, H.R. 1955, the Enterprise Zone Tax Act, is cosponsored by a majority of Members in the House, has passed the Senate as S. 863, and is backed clearly by the President.

It is an attempt to bring the American economic success formula to the inner city. It is an idea that must be tried, an experiment that must go forward, for too many lives can be positively affected by it.

Mr. Chairman, the results of enterprise-zone legislation in the States is most encouraging. Although the first State zones were created only in the fall of 1982, a survey by the Washington-based Sabre Foundation has discovered strong enthusiasm for enterprise zones within the designated areas, with more than 20,000 jobs in place or in progress in the nine States actually operating enterprise zones.

According to the report:

> Business startups and expansions within zones has already generated 4,601 jobs. In the opinion of officials administering local zone programs, another 4,085 jobs have been saved when businesses planning to move out of a depressed area had a change of heart after the enterprise zone was declared. (The saved companies were typically among the largest employers in their areas, and several have subsequently expanded.)
>
> Officials also reported plans for an additional 8,477 hires by zone-based entrepreneurs, and estimated that 3,108 further jobs will be created by firms whose applications for zone applications are now planning.

The report shows that cities like Norwalk, Conn., have increased employment 20 percent in 1 year in the designated zone area.

Mr. Chairman, this remarkable growth in jobs has occurred in less than 1 year, in a few small areas, without any assistance from the Federal Government as envisioned in the bill. Clearly, there is strong evidence that this legislation will help those areas that need help the most.

Enterprise zones encourage the creation of small business. We know that 70 percent of all new jobs are created by small business in this country, with the percentage much higher in the inner city. The enterprise zone concept has also been endorsed by those organizations with the closest ties to the inner city, the National Urban League, the NAACP, the National League of Cities, the National Urban Coalition, members of the Congressional Black Caucus, and the mayors of many of our Nation's largest cities.

I am aware that members of this committee have concerns about this bill based on revenue impact. They have cited Treasury studies putting the loss at $1 billion by 1988 for the proposed 75 zones.

The Heritage Foundation has released a report today which shows that many of the assumptions in the Treasury studies barely resemble the conditions within likely zone sites. The report states that the "calculations ignore all probable new revenues and welfare outlay reductions resulting from the zones. Consequently, the projected costs are surely exaggerations."

Mr. Chairman, one of the areas that will apply for an enterprise zone is Benton Harbor, Mich. This is an area that has suffered economic decay and misfortune, but has always battled back to try to solve its problems.

The city has studied the feasibility of an enterprise zone and determined that it would create a substantial number of jobs and go a long way toward restoring Benton Harbor to economic prosperity.

Benton Harbor safely falls within the size standards set by the proposed legislation. Quoting from a report done by Abe Frank, a student at the Thomas J. and Alberta White Center for Law at Notre Dame, a former intern of my staff, "The City of Benton Harbor has repeatedly tried to stimulate investment and has undertaken a variety of economic development plans to address its problems."

The people of the community are clearly dedicated to bringing what has been called the worst city in America by the Chicago Tribune magazine, by the 60 Minutes national television show, out of its depression. There is great desire to return Benton Harbor, once the hub of southwestern Michigan, back into a thriving community."

Senator Robert F. Kennedy of New York tried to set up a similar type of program based on local incentive and free enterprise in the Bedford-Stuyvesant area of Brooklyn, N.Y. Although he was assassinated before the plan had a chance to develop, author Jack Newfield described it as "giving a damn about hell."

Mr. Chairman, I submit to you that many of our inner cities and our rural cities resemble images of what a spiritual hell could look like if it was manifested on Earth.

Mr. Chairman, I fully believe that this endeavor will do more to restore our inner cities than all the Federal programs directed toward the inner city over the last 20 years combined.

I also believe that the new growth these zones create will result in a net budget reduction for the Federal Treasury. I urge this committee to act now. Act to prevent the destruction of more inner city families, act to bring employment to minority youths, act to make our inner cities a better place to live.

This committee has the authority to begin the process of transforming the decay of poverty into the promise of upward mobility for thousands of Americans. It is my deepest hope and prayer that you will not let that opportunity pass you by.

Thank you very much for the opportunity to share some of my thoughts with you.

[The prepared statement and attachments follow:]

STATEMENT OF HON. MARK D. SILJANDER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman, I would like to express my sincere appreciation for the opportunity to speak before the committee today on the issue of enterprise zones. It is my hope that these hearings will demonstrate the positive effects that enterprise zones will have on America's desperate inner cities.

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Although the population of the country as a whole has been growing, a mass migration of population and jobs has occured from the northern cities. This situation has produced chronic unemployment, sluggish economic growth, a declining tax base and rising tax rates, and an extremely high cost of living for us all. We have seen program after program from the Federal Government attempt to assist the people in the inner city, and yet we have seen marginal results at best. Many of the programs that have been implemented amongst the poor have actually served to perpetuate poverty not eradicate it.

As George Gilder has noted in his book, "Wealth and Poverty," the situation in the inner and rural cities, where all these poverty programs have been concentrated, is worse today than it was two decades ago. Here is a case where we in Congress must confront some realities and facts. The Federal Government has been tried and found wanting. It enacted its myriad of programs, and concentrated them specifically on the black poor in mostly the central cities of America; and the result today is that six out of ten black children are brought up without a father in the home. This is a desperate tragedy, and it's directly attributable, and can be demonstrated to be attributable, to those very programs the Federal Government thought could solve the problem of poverty.

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THE ADMINISTRATION'S ENTERPRISE ZONE PROPOSAL FACTSHEET

Objectives.—The Administration proposes the creation of an Enterprise Zone program, which would be an experimental, free-market initiative for dealing with economic distress in inner cities and rural towns. Its objectives are twofold:

To create jobs in the nation's depressed urban areas and rural towns, particularly jobs for disadvantaged workers.

To redevelop and revitalize the geographic zone areas themselves.

Concepts.—The underlying concept of Enterprise Zones is to create a free-market environment in depressed areas through relief from taxes, regulations and other government burdens, privatization of some city services and involvement of private, neighborhood organizations. Because the program is based on the concept of removing government burdens rather than providing government subsidies, it should involve no appropriations, at least at the Federal level.

The removal of these burdens will create and expand economic opportunity within the zones, allowing private-sector firms and enterpreneurs to create jobs and expand economic activity within these areas. This would be similar to the free trade zones established in other parts of the world, such as Hong Kong, which have been quite successful in stimulating the development of poor areas.

The program is intended primarily to stimulate new economic activity within the zones that would not otherwise have occurred at all, anywhere, rather than to encourage existing outside activity to relocate into the zones. In addition, the intent behind the program is not to stimulate a particular kind of business, but rather to let the market decide what activities should take place in the zones. While the Federal tax incentives are skewed towards labor-intensive businesses and jobs for disadvantaged workers, the program generally is meant to include a relatively balanced set of incentives for a broad range of economic activities and businesses.

Program structure.—The Federal legislation would establish what areas would be eligible to be declared Enterprize Zones based on criteria concerning poverty, unemployment and other indicators of distress. But this would not be an entitlement program, and, consequently, eligible areas would not automatically become Enterprise Zones. Rather, an eligible area would first have to be nominated by the local government, followed by confirming nomination by the State government, or nominated by the State government, followed by confirming nomination by the local government. Both the nominating State and local governments would then have to apply to the Secretary of Housing and Urban Development for Federal designation. In general, any jurisdiction satisfying minimum population requirements which is eligible under the UDAG program would be eligible for State and local nomination if it met the distress criteria.

The Secretary of Housing and Urban Development would then evaluate the zone nomination on a competitive basis. The primary criteria for choosing which proposed zones will receive Federal designation will be the quality and strength of the incentives to be contributed by the State and local government. Particular emphasis would be given to incentives and contributions consistent with the overall Enterprise Zone theme of creating an open market environment through the removal of government burdens. These contributions would include tax relief, regulatory relief, increase in the level of efficiency of local services through possible experimentation with private sector providers of public services, and involvement in the program of neighborhood and community groups. Other contributions and factors would also be considered in this competition.

A maximum of 25 zones would be approved in each of the first three years of the program. Each zone would last for the period chosen by the designating State and local governments, with a maximum of 20 years on the Federal participation, plus a four-year phaseout of that participation. The Department of Housing and Urban Development would be the agency administering the program.

Federal tax incentives.—The major features of the Federal tax package are:

A nonrefundable investment tax credit for capital investments in an Enterprise Zone. For personal property, such as machinery or equipment, this credit would be 3 or 5 percent. For the construction or rehabilitation of commercial, industry or rental housing structures within a zone, the credit would be 10 percent.

A nonrefundable, 10 percent income tax credit to employers for payroll paid to qualified zone employees in excess of payroll paid to such employees in the year prior to zone designation.

A special, strengthened, nonrefundable, 50 percent income tax credit to employers for wages paid to zone employees who were disadvantaged individuals when hired.

A nonrefundable, 5 percent income tax credit to qualified zone employees for wages earned in zone employment.

The elimination of capital gains taxes within the zones.

The designation of suitable Enterprise Zone areas as Foreign Trade Zones, provided relief from tariffs and import duties.

The continued availability of Industrial Development Bonds to small businesses in Enterprise Zones even if the availability of such bonds is terminated elsewhere.

Any Enterprise Zone firm would be allowed an operating loss carryover for the life of the zone in which it is located or 15 years, whichever is longer.

Any Enterprise Zone firm would be allowed a carryover of any unused employment tax credits for the life of the zone in which it is located or 15 years, whichever is longer.

Cost and effect of the tax package.—The Treasury Department estimates that the cost of a sample Enterprise Zone which includes 10,000 employees with this tax package would be $12.4 million per year in terms of foregone tax revenue. The cost of 10 such Enterprise Zones in the first year of the program would, therefore be $124 million. The cost of 25 such Enterprise Zones in the first year would be $310 million. The total cost of the program would increase commensurately in future years for increased numbers of zones.

As a whole, the effect of this tax package for most Enterprise Zone firms would be to eliminate 75 percent or more of the corporate income tax, eliminate entirely the capital gains tax, provide relief from tariffs and duties wherever Enterprise Zones are also Foreign Trade Zones, and provide income tax relief to the firm's qualified employees. These incentives will facilitate easier access to start-up capital.

Federal regulatory relief.—Under the Administration proposal, Federal regulatory bodies (all agencies covered by the Administrative Procedures Act) would be given discretionary authority to relax or eliminate their nonstatutory regulatory requirements within Enterprise Zones, in accordance with standards promulgated by Congress, but only upon the request of the State and local governments.

To utilize this authority, the State and local governments governing each zone would initially ask Federal regulatory bodies to relax or eliminate particular regulations within the zone. The Federal bodies that promulgated the regulations would have the statutory power to grant such requirements at their discretion. Congressionally mandated standards would dictate how the agencies would use this discretion. The standards would include an instruction to each body to weigh the special job creation and economic revitalization purposes of the zones against other important aspects of the public welfare, which may underlie the regulation, and to relax or eliminate each particular regulation within a zone when appropriate. A Federal regulatory body would have no authority to take any action without a prior request from both the State and local governments governing each zone.

Regulations which are specifically imposed and spelled out by statute would not be affected by this authority. The minimum wage law, for example, would not be affected, since the statute expressly requires that a minimum of $3.35 an hour be paid. The authority could only be used to relax regulations where agencies now have some discretion. Regulations affecting civil rights or whose relaxation would harm the public safety or health, including environmental health, would be expressly exempted from this authority.

State and local government role.—The Enterprise Zone program is not simply a Federal Government effort. To be successful, the program must have substantial contributions from State and local governments. In fact, State and local contributions would probably make the critical difference in whether a zone succeeds or fails.

The initial importance of the State and local contributions is that they would determine what designated zones would be Federally approved. The Federal posture towards these contributions would be highly flexible. No particular element or tax relief or regulatory relief, or any other possible contribution would be required.

Failure to include one element in a State and local package of contributions could be offset by greater strength in the other elements. It should be remembered, however, that each State and local contribution package would be competitively evaluated against the other State and local packages.

In the area of tax relief, State and local governments could provide reductions in State and local income taxes, property taxes, sales taxes, and other taxes which vary among the jurisdictions.

State and local deregulation could be provided in such areas as zoning, occupational licensure laws, usury laws, price controls, permit requirements, central planning regulations and building codes.

In the area of service improvement, "contracting out" or "privatization" could be one means of improving local services.

State and local goverments may also provide funding for projects which contribute to economic development in a zone, such as job-training or infrastructure efforts. These governments may use their Community Development Block Grants, Urban Development Action Grants or Revenue Sharing funds for these efforts.

To encourage local community involvement, State and local governments could provide for the creation of "Neighborhood Enterprise Associations" by zone residents. These Associations could undertake the provision of some city services in their areas, help local residents to participate in the economic success of the zones, particularly through mechanisms providing for equity participation by zone residents, and support volunteer, self-help efforts for the zone areas. Participation in the program by other private sector organizations which could perform these functions could also be encouraged by the State and local governments.

Mr. Chairman, the results of enterprise zone legislation in the States is most encouraging. Although the first State Zones were created only in fall of 1982, a survey by the Washington-based Sabre Foundation has discovered strong enthusiasm for enterprise zones within the designated areas, with more than 20,000 jobs in place or in progress in the nine States actually operating enterprise zones. According to the report, "business startups and expansions within zones has already generated 4,601 jobs. In the opinion of officials administering local zone programs, another 4,085 jobs have been saved when businesses planning to move out of a depressed area had a change of heart after the enterprise zone was declared. (The 'saved' companies were typically among the largest employers in their areas, and several have subsequently expanded.) Officials also reported plans for an additional 8,477 hires by zone-based entrepreneurs, and estimated that 3,108 further jobs will be created by firms whose applications for zone applications are not planning."

The report shows that cities like Norwalk, Connecticut has increased employment 20 percent in one year in the designated zone area. Mr. Chairman, this remarkable growth in jobs has occurred in less than one year, in a few small areas, without any assistance from the Federal Government as envisioned in the bill. Clearly there is strong evidence that this legislation will help those areas who need help the most.

NEW JOBS, BUSINESS EXPANSIONS MARK STATE ENTERPRISE ZONE EFFORTS

Although U.S. enterprise zones average less than nine months in age, a new study has found that the state-designated zones are making tangible progress in revitalizing depressed urban and rural areas.

Of the 21 states with recently enacted zone legislation, enterprise zones are now operational in nine states. The Sabre Foundation, in the first systematic assessment of U.S. zones, conducted interviews with and mailed questionnaires to hundreds of state and local officials to assess the record of active enterprise zones in 182 communities.

The survey concentrated upon three aspects of enterprise zone performance: employment, business investment, and fiscal impacts. The survey results give new evidence to address the following questions around which the enterprise zone debate has revolved:

Do enterprise zones lead to the creation of new jobs?

Yes. To date, state-designated zones can claim 20,271 jobs in place or in progress. Business startups and expansions within zones have already generated 4,601 jobs. In the opinion of officials administering local zone programs, another 4,085 jobs have been saved when businesses planning to move out of a depressed area had a change of heart after the enterprise zone was declared. (The "saved" companies were typically among the largest employers in their areas, and several have subsequently expanded.) Officials also reported plans for an additional 8,477 hires by zone-based entrepreneurs, and estimated that 3,108 further jobs will be created by firms whose applications for zone operation are now pending.

Jobs created or saved in enterprise zones have frequently proven significant for sponsoring communities. In Norwalk, Connecticut, for example, the saving or creation of approximately 1,000 jobs in the past year represents a substantial share of the 5,000 jobs that were in the zone area at the time of designation.

Who is hired?

Evidence from a subsample of communities suggests that unemployed and disadvantaged workers are doing well in enterprise zones. Although few communities have instituted comprehensive systems to track the hiring practices of zone-based firms, five communities have found that expanding firms have been hiring from 23.3 to 100 percent of their new workers from the ranks of the unemployed or disadvantaged. On average, the report concludes, these two categories account for approximately 30 percent of new zone hires.

What kinds of business activity benefit?

Some states and cities indicated that they initially felt enterprise zones would help them primarily to persuade companies to relocate from existing sites in other jurisidictions to their own. The survey found, however, very few relocations. This may change with time, but for the moment the principal gains in employment have come from expansion of established firms and startups of small businesses. The importance of startups and expansions is of particular interest because so many of these areas were dying as centers of business enterprise before the zones were declared.

Given the debate on the decline of American manufacturing and the flight of manufacturing facilities overseas, it is noteworthy that enterprise zones have had a disproportionate impact on manufacturing as a sector. In the economy as a whole, businesses engaged in manufacturing account for less than 21 percent of business enterprises. In the enterprise zones, 29 percent of the new projects are occurring in the manufacturing sector.

How much investment has occurred?

Local and state officials administering enterprise zone programs reported that more than $450 million of private investment has been committed since activation of the incentives in depressed areas. New construction, renovations, and plant expansions were underway in the vast majority of zones surveyed.

Do enterprise zones work to the detriment of businesses near but not in the zone?

This issue looked large in the debates of state legislatures that enacted a program. The survey, however, encountered only one report of significant border effects. That came from an Ohio official who asserted that a number of businesses had been established just outside one zone, favorably positioned to service existing and prospective companies operating in the zone.

What sort of incentives are used?

In zones showing particulary strong job generation results, the state and local incentive packages in many cases went beyond tax relief to remove other obstacles to business development. Streamlining regulatory procedures, reducing crime, and stimulating neighborhood cleanup/fixup efforts appeared particularly effective in improving the climate for jobs creation.

What are the fiscal effects of enterprise zones?

The survey found evidence that tax revenue loss is accompanied by reduced spending demands. State and local programs—which are approximately 20 percent as powerful in tax relief as the proposed federal package—to date can claim to have generated or saved 20,271 jobs. A large share of the jobs created in the zones have gone to unemployed workers and residents, including the long term unemployed, in those cities tracking the hiring practices of firms. Although the zones have been designated in areas of lagging business activity, state enterprise zones so far have also been the sites of 160 startup firms. Nonetheless, past estimates of enterprise zone tax revenue loss have overlooked the fiscal impact of self-sufficiency for newly-hired individuals who previously required unemployment compensation or transfer payments for support, and assumed that the zones would merely relocate business activity rather than stimulate new startups and expansions.

"Operational state enterprise zones have given a promising start to a new economic development initiative," noted Dick Cowden, coauthor of the "Enterprise Zone Activity in the States" survey. "In establishing a 'climate of opportunity' for businesses and residents alike, local and state officials have pointed the way to more effective national approaches to resolving pressing problems."

The enterprise zones encourage the creation of small business. We know that 70 percent of all new jobs are created by small business in this country with the percentage much higher in the inner city. The enterprise zone concept has also been endorsed by those organizations with the closest ties to the inner city, the National Urban League, the NAACP, the National League of Cities, the National Urban Coalition, members of the Congressional Black Caucus, and the mayors of many of our Nation's largest cities.

I am aware that members of this committee have concerns about this bill based on revenue impact. They have cited Treasury studies putting the loss at $1 billion by 1988 for the proposed 75 zones. The Heritage Foundation has released a report today, which shows that many of the assumptions in the Treasury studies barely resemble the conditions within likely zone sites. The report that the "calculations ignore all probable new revenues and welfare outlay reductions resulting from the zones. Consequently the projected costs are surely exaggerations."

1. New firms versus relocations

Treasury assumptions.—The Treasury analysis assumes that federal enterprise zone incentives will achieve a net expansion in employment of 10 percent each year. Of this, Treasury predicts that half would be due to relocations and half to new firms or expansions. Moreover, the analysis assumes "all activity generated by the programs would have existed somewhere else in its absence (i.e., the newly started or expanded firms, as well as those that have relocated, would have done business elsewhere had they not been diverted by enterprise zone incentives)." In other words, the Treasury assumes that the zone program will not create a single new job, but merely divert jobs to the inner cities. Hence all credits and incentives constitute a net revenue loss.

Reality.—The Treasury assumes that zone tax incentives will not lead to net new activity-yet the same Treasury maintains that the Reagan tax incentives are generating new activity throughout the country (and the data support this). As elsewhere, incentives in the zones will create net new activity and this will mean new flows of income taxes, Social Security taxes, and corporate income taxes.

Relocation into the zone is likely to be more modest than Treasury assumes. Studies of firm location decisions show that companies put tax incentives well down the list of factors in choosing a site. Crime in the area, access to necessary labor skills, and similar factors are far more important—particularly for larger firms.[1] Companies simply do not pull up their roots and move to places like the South Bronx in order to obtain a few tax benefits.

The seminal work on urban job generation by David Birch also suggests that relocation will be low in the enterprise zones. Breaking down urban job creation by type of neighborhood, Birch showed that heavily minority central neighborhoods in declining cities (typical sites for enterprise zones) generally gain new jobs equal to about 7.7 percent of the existing jobs—although this is more than offset by losses of 9.6 percent. Almost two-thirds of new jobs come from startups. Only one-tenth are due to firms moving into the neighborhood from other parts of the city or from outside the metropolitan area. For this level to reach one-half by virtue of enterprise zone status, as the Treasury assumes, there would have to be a dramatic change in the normal job generation pattern. This is unlikely. Even in rapidly growing cities such as Houston, Birch shows, firms moving into the neighborhood are responsible for only one-eighth of the new jobs.[2]

The Sabre Foundation survey also suggests that the Treasury has overestimated revenue losing relocations. "Almost none of the companies operating in the enterprise zones represent relocations," concludes the survey, "Major growth has come about from expansion of existing firms and from startups that otherwise appeared unlikely to occur." The survey notes that many city officials believe now that a significant proportion of the new projects either would not have occurred anywhere, were it not for the zones, or they would have taken place on a substantially reduced scale.

2. Utilization of tax credits

Treasury assumption.—The Treasury's fiscal impact analysis assumes that all existing firms in an enterprise zone, and all new firms, will be able to utilize the tax credits available in the legislation for hiring workers and investing in the zones. In the case of existing firms, in particular, this allows Treasury to deduce heavy revenue losses—even if there is only modest job generation.

Reality.—This assumption is seriously flawed. Companies can only utilize the available tax credits if they have income tax liability against which to offset them. In depressed neighborhoods, many struggling firms have little or no tax liability, so the revenue loss on existing firms is likely to be much lower than the Treasury forecast.

Revenue loss due to startups also is likely to be lower than the Treasury calculates. The Sabre Foundation survey attributes nearly half of the zone activity to startups (in line with Birch's analysis of typical activity). But young firms, especially independent small businesses, generally have very low or zero income tax liability in their early years. So a significant proportion of the new firms in enterprise zones will not be able to use all the credits available to them. This will reduce the revenue loss.

3. Size of typical zone

Treasury assumption.—The Treasury bases its $1 billion price tag for 75 zones on what is described as a typical zone of 5 square miles, with 8,000 existing employees.

Reality.—The Treasury's "typical" zone is probably much larger than the federal government would actually designate. The legislation calls for a minimum population (not workforce) of 4,000 in large cities, and only 1,000 in rural areas. The pending legislation sets aside one-third of all designations for small towns and rural areas. The size of the zones would have to be many times the minimum specifications to reach the Treasury's "typical" level of employment. The Department of Housing and Urban Development, which would be choosing zone sites, has made it clear that it envisions areas much smaller than the Treasury assumes.

4. Budget savings and new revenues

Treasury assumption.—In addition to its assumption that there will be no offsetting tax revenues generated by new firms and employees in the zones, the Treasury assumes no budget reductions due to savings on welfare and other costs effected by new zone employment.

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[1] See, for instance, Roger Schmenner, "The Manufacturing Location Decision" (Cambridge, Massachusetts: MIT Study, 1978); National Federal of Independent Business, NFIB Report on Small Business in America's Cities (Washington, D.C.: NFIB, 1981).

[2] David Birch, "Job Generation in Cities" (Cambridge, Massachusetts: MIT Program on Neighborhood and Regional Change, 1980), pp. 16–17.

Reality.—The Treasury defends this unrealistic position by arguing that (a) since it assumes no new net activity will result, no new revenues will be generated, and (b) the study was not designed to analyze savings to the government.

These caveats may well have made the analyst's job easier, but they demonstrate the fundamental deficiencies of such cost estimates. To take a hypothetical example, if an unemployed man were to find a job in an enterprise zone, generate $1,000 in new corporate and personal income taxes, relieve the welfare rolls of $5,000 in outlays, and help his firm qualify for $3,000 in tax credits, the Treasury would put the cost of the job at $3,000. Budget reductions and new tax revenues amounting to $6,000 would be ignored.

The offsetting outlay reductions and new revenues are likely to be significant even though trying to estimate them would require the kind of controversial assumptions characterizing the Treasury analysis. But an approximate calculation based on the Treasury's "typical" zone indicates the range of savings and revenues that are being ignored.

If a zone has an employment base of 8,000 and, as the Treasury surmises, experiences a 10 percent annual net job growth, that would mean 800 new jobs each year. Assume all these jobs are net additions to the nation's employment level, and that all the new hires were structurally unemployed disadvantaged heads of two-parent households with one dependent child. Assume also that the workers are paid $5 per hour, or $10,000 a year.

In the state of Connecticut (which has designated 6 zones) this would imply a saving to the federal government of approximately $6,000 per year in Medicaid outlays, food stamps, and AFDC payments (available to two-parent families in Connecticut). At an income of $10,000, the employee would pay approximately $450 in federal income taxes and $650 in his share of Social Security taxes. If these savings and revenues were to be achieved for each of 800 new workers in 75 zones, the $1 billion annual "cost" to the Treasury of the enterprise zone program would be offset by $360 million in budget savings and $70 million in additional personal income tax. And this ignores additional corporate income tax and employer Social Security payments.

Clearly the above calculation takes an unrealistic best-case scenario, and so overestimates the positive impacts of the enterprise zone. But then, the Treasury analysis adopts an unrealistic worst-case. The accurate balance would no doubt be somewhere between the polar positions.

CONCLUSION

The enterprise zone initiative is a bold, bipartisan attempt to use state and federal incentives to spur economic development in the nation's most distressed communities. If Congress is looking for a program that guarantees results at a firm price tag, the enterprise zone is not that program. It is an experiment and should be seen as such. But the state data available suggest that it would pay off handsomely in new jobs for the hardcore unemployed. And the faulty assumptions of the Treasury's cost analysis point to a much lower revenue loss than some congressmen have feared. Good reasons for the House to move quickly and enact this long-overdue legislation.—Stuart M. Butler, Ph.D., Director of Domestic Policy Studies.

Mr. Chairman, one of the areas that will apply for an enterprise zone is Benton Harbor, Michigan. This is an area that has suffered economic decay and misfortune, but has always battled back to try to solve its problems. The city has studied the feasibility of an enterprise zone and determined that it would create a substantial number of jobs and work a long way towards restoring Benton Harbor to economic prosperity.

Benton Harbor safely falls within the size standards set by the proposed legislation. The minimum population standards are well below the city's present population of 14,657.

Quoting from a report done by Abe Frank, a student at the Thomas J. and Alberta White Center for Law at Notre Dame, and a former intern on my staff, "the city of Benton Harbor has repeatedly tried to stimulate investment and has undertaken a variety of economic development plans to address its problems. The people of the community are clearly dedicated to bringing what has been called the 'worst city in America' out of its depression. There is great desire to return Benton Harbor, once the hub of southwestern Michigan into a thriving community.

Senator Robert F. Kennedy, tried to set up a similar type of program based on local incentive and free enterprise in the Bedford-Styvestant area of Brooklyn, New York. Although he died before the plan had a chance to develop, author Jack Newfield described it as "giving a damn about hell." Mr. Chairman, I sumbit to you that many of our inner cities, our rural cities, resemble images of what a spiritual hell could look like if it was manifested on Earth.

Mr. Chairman, I fully believe that this endeavor will do more to restore our inner city than all the Federal programs directed towards the inner city over the last twenty years together. I also believe that the new growth these zones create will result in a net budget reduction for the Federal Treasury. I urge this committee to act now. Act to prevent the destruction of more inner city families, act to bring employment to minority youths, act to make our inner cities a better place to live.

This committee has the authority to begin the process of transforming the decay of poverty into the promise of upward mobility for thousands of Americans. It is my deepest hope and prayer that you will not let that opportunity pass you by.

Thank you very much, Mr. Chairman.

Mr. PEASE. Thank you very much, Mr. Siljander. We appreciate your testimony.

I would like to ask you just a question or two. Is it safe to assume that Benton Harbor is in your district?

Mr. SILJANDER. Yes. It is in southwestern Michigan in the Fourth District, which I represent.

Mr. PEASE. I was intrigued by your statistic, I believe you said 6 out of 10 family units in inner cities are headed by women, was that your statistic?

Mr. SILJANDER. That is correct.

Mr. PEASE. And you said that is caused by Federal social programs?

Mr. SILJANDER. No. My implication was that fatherless homes in inner cities are caused by the problems of poverty, by the problems of unemployment, and by the problems caused by the lack of opportunity. We have had many programs for inner cities, many programs that have been of some assistance, and yet, the bottom line is that decades of dumping millions of dollars into cities have not produced any positive empirical results.

Some lives have been saved and some assistance with other programs, which we all support, have had positive results, but the bottom line is that what we have been doing does not help solve the fundamental ills of the rural and inner cities of America.

I am saying give another example with what we have been doing. Rather than eradicating it, allow another test, an experiment, a new approach, a free enterprise approach, the approach that has made America what it is today, apply that approach as well as the others that, in my opinion, have not proved out overly successful and couple that with the old programs and I believe that will help.

And in my opinion, we have nothing to lose and everything to gain.

Mr. PEASE. You did not suggest or mean to suggest that Federal programs have been a cause of this single family parenthood?

Mr. SILJANDER. Obviously, Federal programs are not a specific direct cause, no, but those programs have not helped in eradicating the problem.

Mr. PEASE. You seemed to suggest at the end of your testimony that there would be no revenue loss from this program, is that correct?

Mr. SILJANDER. That is my belief, based on tax incentives, based on the fact we would be placing more people to work, paying more taxes rather than drawing on the system, contributing to the system.

The net result could very likely be, and that is why I am so supportive of having a small experiment of 25 cities a year for 3 years, because my belief will find that it will be a net plus, a net gain in tax revenues, and not a net loss as so many would believe.

I know that there are some statistics and testimony that suggest otherwise. But my belief in the personal opportunity incentive is that if people have an opportunity to work and produce and pay taxes, they will, and the Government will find at least a balance, a net wash or a net benefit, not only for society, the benefits of keeping more families together by keeping more people working, less police protection, but certainly also the national Treasury, as people begin to contribute rather than draw from the system.

Mr. PEASE. Staff informed me that the Treasury Department testified earlier that it would be a loss of $3 million or so for about 5 years.

Mr. SILJANDER. If the Tresaury is right, about $3 million, I presume that the Treasury could probably say give or take $8. So that does not move me that there may be a $3 million loss.

Mr. PEASE. $3 billion?

Mr. SILJANDER. Even at $3 billion, that is their estimates. And we have had other estimates from other legitimate organizations that suggest it would be a wash or a net gain.

Mr. PEASE. I suppose you are right about that. Actually, Treasury, at least the Secretary of the Treasury, was estimating 2 years ago that we would have a balanced budget this year, so they have been known to be wrong on other occasions.

Mr. SILJANDER. You pointed it out, I didn't.

Mr. PEASE. Any other questions?

Mr. Guarini.

Mr. GUARINI. No, I just want to thank our colleague for his fine testimony.

Mr. PEASE. Thank you, Mr. Siljander.

The next scheduled witness is Mr. Arnold Cantor of the American Federation of Labor-Congress of Industrial Organizations. He has agreed to join with the next panel made of Martin Levine, Mark Bendick, and Stuart Butler.

Would those four gentlemen please assume the witness table?

Gentlemen, we have a vote in progress. I could start with Mr. Cantor, but I will only be able to go about 4 minutes, so why don't we just recess for about 7 or 8 minutes and I will go and vote and come back.

[Recess.]

Mr. RANGEL. We will resume our hearings.

It is my understanding that the panel from the AFL-CIO, Mr. Cantor, Mr. Levine from the CBO, Dr. Bendick, Urban Institute, and Dr. Butler will be our next witnesses.

Thank you very much for being here.

STATEMENT OF ARNOLD CANTOR, ASSISTANT DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. CANTOR. Thank you, Mr. Rangel.

I will summarize and paraphrase my statement.

Mr. **Rangel**. Let me state that your full statements will be in the record. Certain parts of the various bills everyone accepts as facts, so if you could highlight the testimony, it would give us more opportunity to talk about the different things rather than what we have already discussed this morning.

Sorry to interrupt.

Mr. **Cantor**. I am here to reaffirm the AFL-CIO's opposition to H.R. 1955, the administration's enterprise Zone proposal. The bill is fundamentally a tax cut proposal which will further distort and weaken the tax laws.

We firmly believe that such zones will not lead to any additional jobs nor would they further national investment, industrialization or economic growth objectives. The most likely outcome is a reshuffling of existing jobs and encouraging destructive inter- and intrastate competition for industry.

The other bills before this committee, H.R. 1735 and H.R. 2375, unlike the administration's bill, emphasize the need for positive government programs and actions to aid distressed communities.

Thus, they differ substantially from the administration bill's false premise that relief from taxes, regulations and other government burdens will "* * * create a climate for the enterprise system to flourish within the zones, allowing private sector firms and entrepreneurs to create jobs and expand economic activity."

H.R. 2375, for example, contains many features that we do support—particularly Title I which would provide seed money and working capital, loans to business and Federal grants for infrastructure improvements and construction of public facilities. Nevertheless, we do oppose the tax provisions of that bill and H.R. 1735 because they rely much too heavily on tax incentives to accomplish development goals.

The administration's measure adds up to an array of tax reductions and other measures which directly or indirectly encourage a diminution of Government revenues, programs, standards and safeguards. The bill's potential for rearranging jobs and distorting investment far overshadows its potential for new job creation and spurring development.

The AFL-CIO has no quarrel with the concept of targeted assistance to designated areas for special economic aid to residents and business. To the contrary, we heartily endorse the idea. But we believe the essence of targeting is to avoid the potential for inequity, waste and abuse that is inherent in most tax incentives.

Among the inequities and flaws we see in the bill are: First, the tax benefits are limited to firms within the designated zone. However, in many urban areas existing and potential employment is outside the zone.

Thus, a firm outside the zone that employs zone residents would get no benefit. This, of course, could lead to extremely inequitable situations and an incentive for shut-downs and relocations and destructive competition for foot loose firms that adds nothing to and could detract from, economic development and job creation.

Second, the tax breaks provide no up front money and the principal beneficiaries would be profitable firms that can take full advantage of the opportunity to reduce or eliminate their tax liability through use of the credits.

It is also likely that many stable, existing firms in the zone that have been providing neighborhood jobs may not be able to meet the bill's qualifying criteria for tax relief and would be unable to compete with a new firm that is subsidized through the tax benefits.

Also, a resident of the zone, working within the zone would receive the 5-percent wage credit. Yet, his or her neighbor whose job is outside the zone would get no such benefit. And, ironically, lower income workers would receive the least benefit.

The capital gains exclusion does not help an ongoing firm and could serve as an inducement to sell out and leave the zone since there would be no tax liability on any profit from the sale of the business. Any new funds would, we suspect, be dollars in search of tax shelters.

The legislation also provides for the designation of enterprise zone areas as foreign trade zones. We have long urged the elimination of foreign trade zones.

I understand this committee's interest is on the tax provisions but, I would emphasize that we also have objections to other specifics. For example, we object to the bills specific condoning of contracting out of local public service jobs. This has been a serious problem for our public employee unions and has been used as a gimmick and device to undermine unions and worker pension protections.

The bill also seems to set up, ironically enough, a number of criteria and areas for local determination which to me are very, very antithetical to the notion of reducing red tape and regulatory authority.

Finally, Mr. Chairman, on a positive note attached to the testimony are three AFL-CIO convention resolutions which categorically spell out the alternatives that we see as a way to effectively have enterprise throughout the Nation—in urban areas and rural areas—and a growing economy.

Thank you.

[The prepared statement follows:]

STATEMENT OF ARNOLD CANTOR, ASSISTANT DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, THE AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

We are here to reaffirm the AFL-CIO's opposition to H.R. 1955, the Administration's Enterprise Zone proposal. The bill is fundamentally a tax cut proposal which will further distort and weaken the tax laws. We firmly believe that such "zones" will not lead to any additional jobs nor would they further national investment, industrialization or economic growth objectives. The most likely outcome is a reshuffling of existing jobs and encouraging destructive inter- and intra-state competition for industry.

The other bills before this committee, H.R. 1735 and H.R. 2375, unlike the Administration's bill, emphasize the need for positive government programs and actions to aid distressed communities. Thus, they differ substantially from the Administration bill's false premise that relief from taxes, regulations and other government burdens will ". . . create a climate for the enterprise system to flourish within the zones, allowing private sector firms and entrepreneurs to create jobs and expand economic activity."

H.R. 2375, for example, contains many features that we do support—particularly Title I which would provide seed money and working capital, loans to business and federal grants for infrastructure improvements and construction of public facilities. Nevertheless, we do oppose the tax provisions of that bill and H.R. 1735 because they rely much too heavily on "tax incentives" to accomplish development goals.

Before commenting on some of the specifics, we should like to note that the AFL-CIO Executive Council, responding to the 1981 version of the President's enterprise zone proposal characterized it as based on a ". . . false notion that local economic problems will disappear if government would spend less, tax less and protect less," and stated that the proposal was ". . . a tax cut package, not a program to correct urban problems."

H.R. 1955's specific provisons differ for the earlier bills but the essential premise is the same, the tools are similar, its potential for creating additional jobs or forwarding other urban revitalization goals is just as limited and our objects are just as firm.

The measure adds up to an array of tax reductions and other measures which directly or indirectly encourage a diminution of government revenues, programs, standards and safeguards. The bill's potential for rearranging jobs and distorting investment far overshadows its potential for new job creation and spurring development.

The AFL-CIO has no quarrel with the concept of targeted assistance to designated areas for special economic aid to residents and business. To the contrary, we heartily endorse the idea. But we believe the essence of "targeting" is to avoid the potential for inequity, waste and abuse that is inherent in most tax "incentives."

The tax provisions of the bill would:

1. Permit zone employers to receive a 10 percent (non-refundable) tax credit for payroll that exceeds the payroll in the year prior to zone designation. And a 50 percent income tax credit for wages paid to "disadvantaged" zone employees.
2. Provide a 5 percent (non-refundable) tax credit to employees for wages earned in zone employment.
3. Totally eliminate any tax on capital gains.
4. Allow an additional 5 percent Investment Tax Credit for machinery and equipment and extension of the 10 percent ITC to structures within the zone.

Among the inequities and flaws we see in those measures are:

The tax benefits are limited to firms within the designated zone. However, in many urban areas existing and potential employment is outside the zone. Thus, a firm outside the zone that employs zone residents would get no benefit. This, of course, could lead to extremely inequitable situations and an incentive for shutdowns and relocations and destructive competition for foot loose firms that adds nothing to and could detract from, economic development and job creation.

The tax breaks provide no "up front" money and the principal beneficiaries would be profitable firms that can take full advantage of the opportunity to reduce or eliminate their tax liability through use of the credits.

It is also likely that many stable, existing firms in the zone that have been providing neighborhood jobs may not be able to meet the bill's qualifying criteria for tax relief and would be unable to compete with a new firm that is subsidized through the tax benefits.

A resident of the zone, working within the zone would receive the 5 percent wage credit. Yet, his or her neighbor whose job is outside the zone would get no such benefit. And, ironically, lower income workers would receive the least benefit.

The present law's 50 percent Targeted Jobs Tax Credit has been a widely acknowledged failure in generating new jobs. Widening the provision even further would only ratchet up the competition for available jobs among those eligible for the credit.

The 100 percent capital gains exclusion does not help an ongoing firm and could serve as an inducement to sell out and leave the zone since there would be no tax liability on any profit from the sale of the business. Any "new" funds would, we suspect, be dollars in search of tax shelters.

The legislation also provides for the designation of enterprise zone areas as foreign trade zones. Under current law, U.S. foreign trade zones are authorized under the Foreign Trade Zone Act of 1934, and are secure, enclosed areas or enclosures near U.S. ports of entry where imported products may be stored, processed, or manufactured without paying tariffs, observing quotas, or obeying other customs laws of the U.S. Originally conceived as a method to encourage exports and re-exports by reducing customs involvement in the supply of goods, foreign trade zones today have encouraged imports by allowing manufacturing to take place in areas that are legally outside U.S. customs territory by using the zones. Companies, by using the zones, can take advantage of differing duty rates of components and finished products, thus avoiding the intent of U.S. tariff regulations. The AFL-CIO has long urged the repeal of this legislation as being an unwarranted exception to our nation's trade laws.

The section of the bill pertaining to "local commitment" and "course of action" requirements is equally disturbing. Specifically, the bill requires as a condition of enterprise zone designation that the local government follow a course of action which "may be funded from the proceeds of any Federal program and may include" . . . a reduction in tax rates or fees . . . an increase in the level of efficiency of local services . . . particularly through experimentation with providing such services by nongovernmental entities . . ."

We feel these requirements as well as those contained in Title III on regulatory flexibility are vague and loaded with potential for confusion, manipulation and possible undermining of programs, standards and protections.

We see this, first of all, as a clear inducement to cut local taxes despite the fact that the enterprise zone areas are most likely to be in need of tax revenue and facilities, services and infrastructure improvements such as revenue can buy.

Does funding from the proceeds of "any" Federal program mean that Federal aid, for example, from urban mass transit, community development block grants or revenue sharing programs could be used to reduce business taxes?

Increasing the level or efficiency of local services is a phrase that could be interpreted in may ways. Questionable consolidations of police and fire stations are typically justified in the name of increased efficiency. The practice of contracting out of work traditionally performed by public employees is specifically condoned in the bill. This practice has been used in some localities to undercut unions and avoid pension and other responsibilities.

Mr. Chairman, it seems to us that these criteria would either be the subject of continuing controversy and potential use or would require a level of administrative decisionmaking, regulation and enforcement that is not provided in the bill.

The "regulatory flexibility" provision is in our view fundamentally unsound.

First, Title III makes a distinction between laws which protect workers against employer mistreatment or exploitation—laws against "discrimination of the basis of race, color, religion, sex, marital status, national origin, age of handicap" which cannot be waived or modified—and, laws protecting against such wrongs as those which prohibit discrimination based on union activity or which prohibit "oppressive" child labor conditions which can be waived or modified. We can discern no principled basis for this distinction and none has been suggested by the legislation's sponsors.

Second, Title III creates another distinction new to us—that between regulatory waivers or modifications of a rule that would "directly" violate a statutory requirement—which are prohibited—and such waivers or modifications that only "indirectly" violate a statutory requirement—which, we surmise, are permitted. Certainly it is difficult to understand the intent behind the statutory language if it is not to permit waivers or modifications that do not in so many words contradict the words of a statute. Again, we can discern no principled basis for this distinction and none has been suggested by the legislation's sponsors.

Third, Title III grants regulators the authority in their "discretion" to determine whether "the public interest which the proposed change would serve in furthering such job creation, community development or economic revitalization outweighs the public interest which continuation of the rule unchanged would serve in furthering such underlying purposes." We believe that it is beyond the wisdom of the most able official to administer such a far reaching and standardless mandate and that such a legislative grant of discretion is inherently unsound.

The bill, as we read it, would not permit a waiver of any OSHA health standard. Those standards deal with "significant risks" found to exist by the Secretary of Labor and must, to be consistent with Section 6 of the Occupational Safety and Health Act, provide the most adequate feasible assurance that the exposed employees will not suffer any material health impairment. We hope that, if this legislation is enacted, the legislative history is clear on this matter.

The legislation also would pressure states and localities to cut taxes in order to enhance their chances for designation as an enterprise zone. It seems to us that "winning" in that competition would mean that the "successful" enterprise zone applicant's ability to provide necessary services to its citizens would be further diminished.

The bill could also induce states and localities to rollback zoning, occupational licensure laws, usury laws, price controls, permit requirements, control planning regulations and building codes. This we feel, could threaten the public health and safety which is the basic purpose of such laws and regulations.

We do not wish to be negative, and we do not take any proposal which could help solve the nation's urban problems lightly. We have long been concerned about the special development needs of inner cities and have been constant advocates of public and private efforts to meet these problems. In that light we have attached to this statement three resolutions adopted last month by the Fifteenth Constitutional Convention of the AFL-CIO. Together they make up a comprehensive blueprint for economic growth and progress. Included are statements on The National Economy, Rebuilding American Industry and Meeting the Needs of States and Localities.

The National Economy statement, among other things, calls for economic growth by way of an action program of community service jobs and accelerated public works, reduced interest rates and expanded lower income housing production. The program also includes a fair and productive tax structure, assistance to displaced workers, youth training and placement, extended unemployment insurance and removal of excessive restrictions on social programs, mortgage relief and health care for the jobless. In addition, it calls for measures to restrict harmful imports, to require domestic content and to address the nation's trade and investment problems. The statement on Rebuilding American Industry voices the need for a national industrial policy. The policy should include labor, government and business participation, the creation of a National Industrial Policy Board and a National Development Bank to focus on economic modernization and revitalization.

The third statement emphasizes the need for overall economic growth and job creation as the keys to meeting the needs of states and localities. This statement specifically emphasizes that existing programs for economic and community development should be continued and amply funded. It also calls for legislation to deal with the economic dislocation and human hardship brought on by plant closings and relocations, an increased commitment of state aid to urban areas, and more equitable state and local tax structures.

That resolution also specifically rejects enterprise zones characterizing them as leading to ". . . giveaways of badly needed public funds and a wasteful competition for existing business without any net addition of jobs . . ."

We believe the policies outlined in these statements represent a positive approach to urban investment problems, jobs and revitalization needs.

The National Economy

Millions of American workers and their families are suffering from loss of jobs, loss of job security, reduced income, unfair taxes, regressive social policies, and destruction of long-established protections for workers, consumers, and the environment.

This is the result of the disastrous economic policies of the Reagan Administration—policies which produced the worst recession-depression with the highest unemployment since the Great Depression of the 1930s, reaching 12 million at the end of 1982 and remaining over 10 million in 1983.

Unfortunately, in spite of many signs of an improved U.S. economy, unemployment will continue at cruelly high levels. Unless the direction of economic policy is reversed and fundamental problems addressed, recovery will be short-lived.

President Reagan's economic policies set forth in early 1981 called for severe budget cuts, reckless and unfair tax cuts, tight money, and deregulation. The budget cuts reduced protections for jobless workers, cut support for education and training, weakened social programs, slowed down energy development, and diminished support for economic development and infrastructure investment.

The Reagan Administration's huge tax cuts gave huge benefits to the wealthy and to big business, heaping even more of the burdens onto working Americans. These irresponsible tax cuts—coupled with excessive growth in military spending—laid the basis for huge federal deficits for years to come.

The Reagan Administration's rewriting of regulations and nonenforcement of laws diminished safety and health protections in the workplace, undermined protections for consumers and the environment, and weakened the attack on discriminatory practices.

Tight-money, high-interest-rate policies of the Reagan Administration devastated interest-sensitive industries like housing and autos, sharply reduced public and private capital investment, and pushed the dollar to overly high international exchange values adversely affecting exports and encouraging even more imports.

Imports continue to undermine basic industries, such as steel and auto, while threatening service industries and spreading to the newest advanced electronic and computer industries.

Meanwhile, technology continues to change the structure of the U.S. economy, the mix of industries, the location of industries and jobs, and the nature of occupations, education and skill requirements. And foreign nations continue to subsidize key industries, dump goods below cost, restrict, U.S. exports, and devalue their currencies in relation to the dollar to promote exports to the U.S.A.

Plant closings and major layoffs continue to displace thousands of workers and disrupt local communities.

The nation's infrastructure continues to deteriorate. Investment is falling far behind the nation's need to maintain and improve basic support facilities like roads, bridges, water facilities and sewers, which are critical to private-sector investment to raise productivity and create jobs as well as to the health, welfare and safety of citizens.

The merger mania of big business and big banks adversely affects the availability of credit for productive investment and also increases the concentration of economic power used against workers and consumers.

The gaps and disparities in income in the United States have widened as a result of the social and economic policies of the Reagan Administration. Poverty is on the rise. A two-tier economy brings higher income and better living for a fortunate few at the top, but most American families are losing ground.

Economic growth even under the most optimistic assumptions will be too slow and too feeble through the 1980s to provide enough jobs for those millions of workers now without jobs, for those entering or re-entering the labor force, and for those displaced from their jobs by technology and by trade-related job destruction. Even under the Reagan Administration's own projections, unemployment will remain above 8 percent until 1986, a level matched only once in the post-war era—at the depths of the 1975 recession.

Unemployment generates tremendous economic and social losses. For every one million jobless workers, America loses at least $100 billion of goods and services, and the Federal Treasury loses $30 billion in unpaid taxes and extra welfare and unemployment compensation payments. Social costs include physical and mental illness, family breakdown, social alienation, and crime.

Recent gains against inflation have come at the enormous cost of high unemployment, lost output and lost income. Meanwhile, the key components of inflation—medical care, housing, energy, and food—still have not been addressed.

New economic policies are needed—to reverse the cruel and insensitive direction of Reaganomics and to lay a foundation for social and economic progress.

The basic principles behind the economic policies supported by the AFL-CIO are simple. We believe:

Full employment is the key to a healthy economy and a healthy society, and
Economic progress and social justice go together.

JOBS AND TRAINING

The commitment to full employment set forth in the Humphrey-Hawkins Full Employment and Balanced Economic Growth Act of 1978 must be fulfilled. Full employment is a moral, social, political and economic imperative. Economic efficiency and productivity improve at higher levels of output.

To move America faster toward full employment and balanced economic growth, jobs must be created in the private sector and in the public sector for the millions of men and women who cannot find jobs. It is clearly in the economic and social interest of the nation to put Americans who are able and willing to work in productive jobs that produce useful goods and services, generate taxes, and stimulate the economy, particularly in communities with especially high unemployment.

Hours of work need to be reduced to provide more job opportunities. The standard 40-hour workweek of the 1930s should be brought in line with the historic downward trend in hours of work.

Direct, targeted and adequately funded public job programs are needed on a large scale when, as now, the private sector fails to create enough jobs. Needed community services should be expanded, planned community facilities should be constructed, and low and moderate-cost housing should be built and rehabilitated.

Jobless workers should have the opportunity for training in skills that lead directly to jobs. The Job Training Partnership Act of 1982 with its lack of income support during training, its business-dominated structure and its abysmal underfunding is totally inadequate to the nation's employment and training needs.

Private and public sector training, including on-the-job training and upgrading and apprenticeship programs, needs to be broadened. Training allowances and income support should be available for workers in training programs.

At the same time, we oppose wage subsidies to private employers—whether done directly through public grants or through the back door of tax credits.

Job and training programs for displaced workers and youths should be greatly expanded and training allowances should be provided. There should be more targeted job training opportunities for adult workers, including women and minorities, and other groups with special needs.

Legislation is needed to protect workers and local communities against serious injury from plant closings. Such legislation should stop tax incentives for plant closings, require advance notice, protect workers' health and pension rights, provide training for dislocated workers, assure union successorship, and provide other protections and assistance for workers and communities hit by plant closings.

SOCIAL JUSTICE

Fairness and compassion are not in conflict with efficiency and economic progress. In fact, these concerns re-enforce one another. Strong, growing, broad-based consumer buying power is the key to a healthy economy and a healthy society.

Therefore, fair income distribution must be a major concern of economic policy. In practical terms, this means a level of wages and salaries and incomes and taxes for America's workers and consumers that will provide a sound base for a balanced, expanding U.S. economy that is producing the goods and services America's people want and need for a rising standard of living.

Furthermore, basic social programs that help people who are unemployed, aged, disabled, or helpless are fundamental to economic progress as well as to social decency and social justice. These programs maintain income and thus maintain consumer buying power which gives stability and resilience to the American economy. These social programs must not be destroyed or weakened. They must be strengthened and improved.

Unemployment insurance protections for jobless workers should be improved and should be guaranteed for the long-term unemployed. Mortgage and rent relief and health care protections for unemployed workers and their families should be strengthened. Furthermore, the Reagan administration's proposed cuts in safety-net programs like housing, Medicare and Medicaid, food stamps, and child nutrition should be rejected.

To finance these programs and help reduce the deficit, the AFL-CIO proposes that Congress close the tax loopholes that benefit particularly wealthy individuals and corporations and reinstate "ability to pay" as the fundamental principle of taxation.

The AFL-CIO continues to support a strong national defense as a necessary precondition to the survival of democratic institutions—but our support does not mean a blank check for the Pentagon. Military strength depends on having appropriate weapons, ready manpower, logistical support, intelligent strategy, and the availability of a highly productive economy.

The AFL-CIO is convinced that the nation can meet its national security needs without the 9-to-10-percent real increase in the defense budget requested by the Reagan Administration. We propose limiting the increase to real growth rates of 5 to 7 percent, with some in the trade union movement preferring that the increases be held to the lower end of that range or below. But the increase in defense spending should be paid through a progressive surtax on corporate and individual incomes levied in a manner which would include the huge amounts of income that are currently sheltered through inappropriate exclusions, exemptions, credits and deductions.

Congress must block efforts to dismantle or weaken federal regulatory agencies and federal laws and regulations which were established to protect consumers, workers, the environment and the general public from unfair, monopolistic, and anti-social business practices.

The power of big corporations and big financial institutions is getting bigger and bigger through mergers and takeovers and expansion of foreign operations, as well as through the pro-big-business policies of the Reagan Administration. Corporate power and corporate misconduct must be brought under control. A wide range of reforms is necessary, including:

Effective enforcement of anti-trust laws; federal chartering of major corporations; prohibiting huge conglomerate mergers; prohibiting interlocking directorates; setting triple damage compensation for all victims of corporate price-fixing, including secondary customers; legislating stronger penalties for consumer fraud and price-fixing by corporate officials; protecting privac rights against lie detectors and other invasions of privacy; checking media concentration, and establishing more control on oil company investments in competing energy sources and in other non-oil investments.

To stimulate economic progress and economic equity, workers must have an increased share in the benefits of economic progress. A balanced economy requires a fair and productive tax structure and adequate growth of consumer markets which depend on adequate growth of consumer buying power. The needed level and diversity in consumer spending cannot be achieved unless increases in workers' real income are achieved. Thus, collective bargaining makes an important contribution to the health of the American economy.

HIGH INTEREST RATES AND INFLATION

Tight-money, high-interest-rate policies endorsed by President Reagan and maintained by the Federal Reserve Board have been a major cause of the Reagan recession-depression. They have brought record high levels of unemployment and business failures.

Inflation slowed in late 1982 and early 1983 as the catastrophic Reagan recession took its toll. While tight-money policies were pursued to shrink the economy and thereby relieve inflation, they did not deal with the specific inflationary problems of energy, medical care, food, and housing.

Lower borrowing costs, achieved through lower interest rates, are necessary to stimulate job-creating expansion of the housing industry, investment in productive plant and equipment, and public investment in the infrastructure which sets the conditions for job-creating private economic activity.

Funds and credit should be selectively controlled and targeted for productive industrial development and needed housing construction. Credit control authority should be available and new tools should be developed to channel available credit to productive uses.

To reduce price pressures in housing, more support is needed for programs that increase the wider use of below-market interest rate mortgages for low- and middle-income families and for deterrents to conversion of rental housing into condominiums in tight housing markets.

To reduce inflation in health care, cost-cutting practices should encourage health maintenance organizations (HMOs), health planning to eliminate duplication of costly equipment and services, and second opinions before elective surgery. The entire health care system should be reformed through national health insurance.

Natural gas price controls should be maintained along with authority to control oil prices and rationing in time of need. Expansion and development of alternative energy sources are essential, along with reformed utility rate structures and continued energy conservation.

To prevent inflation in the food sector, restrictions should be placed on export of commodities in short supply, and price support programs should be limited to small and moderate-sized farms.

INTERNATIONAL TRADE

Many nations are increasing their barriers to imports of U.S. goods and many nations are subsidizing their exports to the U.S.A. Furthermore, Reagan Administration tight-money, high-interest-rate policies have raised the value of the U.S. dollar in relation to foreign currencies thus encouraging job-destroying imports and discouraging foreign buyers of U.S. exports. Meanwhile, trade adjustment assistance for U.S. workers losing jobs to imports has been virtually wiped out by the Reagan Administration.

A wide range of specific actions is needed to meet this nation's international trade and investment concerns. Such actions include dealing with the erosion of the nation's industrial base, domestic content requirements, adequate and prompt injury relief measures, and trade adjustment assistance to assure that workers injured by imports are promptly and adequately helped.

INDUSTRIAL POLICY

America needs a coherent and comprehensive industrial policy to rebuild the U.S. economy, to speed up healthy, balanced economic growth, and to strengthen the nation's response to international economic competition. To maintain economic and national security and to meet international challenges. America needs its basis industries as well as new high technology industries.

To modernize and revitalize the American economy, business, labor, and government should participate in a tripartite Reindustrialization Board. Under the policy guidance of this board, a National Development Bank would invest public and private funds in necessary reindustrialization projects.

The bank should have authority to use loans, loan guarantees, targeted tax incentives, and other tools to encourage new industries that have difficulty obtaining necessary financing and to assist older industries with special needs for modernization, expansion and restoration of their competitive position. The bank should also direct its resources to specific geographic areas of the country that are most in need.

There should be a thorough monitoring, review and analysis of the existing and newly enacted business tax "incentives" in the light of reindustrialization goals. Alternative measure must be devised which are in fact "incentives" to productive investment and conform with reindustrialization goals and tax justice.

Job and training programs must be part of the nation's industrial policy and reindustrialization.

Injury from foreign trade should be considered by the board as part of its development strategy. Consideration might also be given to expanding the available tools of trade policy to promote economic growth in a particular industry.

In brief, job-creating programs are needed to stimulate the U.S. economy and to move the nation faster toward full employment.

Fairness and social equity are needed to help the victims of regressive Reagan policies and to restore some better balance to the tax system.

Realistic trade policies are needed to maintain America's competitive position in the world economy.

To achieve these goals, the AFL-CIO calls for the following action program:

Community service jobs and accelerated public works;

Reduction in interest rates with the aid of selective credit controls;

Expanded low- and moderate-cost housing programs;

More assistance for displaced workers;

Broader youth training and placement;

Continuation of extended unemployment insurance;

Removal of excessive restrictions in social programs;

Mortgage relief and health care for the unemployed;

Meeting public investment needs through a fairer and more productive tax structure;

Measures to restrict harmful imports, require domestic content, and address the full range of issues essential to resolving the nation's trade and investment problems;

A national industrial policy with labor and business participation, and creation of a National Development Bank to focus on economic modernization and revitalization.

The AFL-CIO will continue to work for programs and policies that will provide jobs for all Americans who want to work, assure a rising standard of living for all Americans, maintain the health and diversity of the American economy, and protect national security.

REBUILDING AMERICAN INDUSTRY

Since the early 1970s, the American economy has experienced frequent and extended periods of high unemployment, massive layoffs, and plant closings. The U.S. share of international and domestic markets for manufactured goods declined markedly, the balance of payments worsened, and American jobs were permanently lost. The industrial base of the American economy is eroding. In order to reverse that pattern, America needs a reindustrialization policy.

An effective industrial policy to rebuild American industry and achieve sustained, balanced economic growth requires a supportive environment of general economic policies for rapid sustained growth and job creation, including an adequate, equitable revenue base and low interest rates. Today emergency recovery measures are also needed to pull us out of the worst conditions since the Great Depression—measures like public job creation, infrastructure investments, and aid to the millions now unemployed.

Despite this need, the U.S. government has maintained a basically "hands-off" or "laissez-faire" policy toward domestic industrial development and international trade. Other countries have implemented agressive industrial and trade policies, with substantial success. In steel, auto, electronics, railcars, aircraft, and a host of emerging industries, Japan, the advanced industrial countries of Europe, and the new industrial countries have applied a wide spectrum of strategic government support—from low-cost credit to protection from import competition, and government assistance in technology development. Manufacturing is most important for the health and balance of the U.S. economy, particularly the production of basic commodities which are essential for other production and have national defense implications. Area and regional differences in needs, wealth, and resources also must be taken into consideration in economic policy matters.

This country is still the greatest economic productive power on earth, although the U.S. lead is decreasing. The nation must assign top priority to the channeling of resources to modernize private and public facilties and restor the national economy to a condition of balanced growth and full employment. Otherwise, the country will continue to lag in productivity growth and international trade; it will continue to leave significant portions of its human and machine resources idle for extended periods of time; it will continue to suffer a reduction in the standard of living of its people.

A successful industrial policy to rebuild American industry will require the active participation and support of all segments of the American economy, including business, labor and government. With economic decisions made within such a framework, a national industrial policy can help assure that coherent, coordinated policies will result in achieving the basic goals of our economy—full employment and balanced economic growth.

The AFL-CIO proposes the creation of a tripartite National Industrial Policy Board—including representatives of labor, business, and government—which would identify and promote assistance to industries and areas that are vital to national economic growth and employment. Such assistance could include loans and loan guarantees, equity participation, direct subsidies, targeted tax measures in place of across-the-board devices, trade relief, training, research and development, and so forth.

The National Industrial Policy Board would be supported by a broad public advisory board including consumer, environmental, academic, civil rights and other groups, and would provide further channels for public involvement through public field hearings. On matters affecting individual industrial sectors or geographic regions, board action would be based on analyses and proposals developed by tripartite industry and regional committees. Its goal would be to help insure the revitalization of the nation's sick industries and decaying communities, and to encourage the development of new industries with promise for the future.

The National Industrial Policy Board would oversee a National Industrial Development Bank, patterned after the Reconstruction Finance Corporation which operated from the late 1930s to about the mid-1950s. The bank would be authorized to make and guarantee loans to finance approved reindustrialization ventures. Private pension funds appropriately safeguarded would be encouraged to make investments in such financing arrangements to support and expand industrial employment in the United States.

Reindustrialization would include capital formation for modernization of existing plant and equipment, or for the creation of new industrial complexes, utilities, and services. The objectives would include sustaining and expanding production and employment, utilizing advanced technology and innovative procedures to enhance productivity and expand markets.

Both national, and local economic investment should be targeted to the urban areas that have high levels of unemployment and underutilized private and public capital facilities. Such assistance should not jeopardize public sector revenues. For optimum benefits, the public financial assistance and the private capital investment it influences should be directed to enterprises with a commitment for employment of unemployed people in the designated areas and training and retraining as may be necessary.

Problems peculiar to any industry—training, trade, research and development or regulation—also need to be addressed by the National Industrial Policy Board.

We cannot write off major industries in this country without paying for it dearly now and in the future. Nor can we permit whole cities and regions of America to decay without serious social and economic consequences. America must remain a diversified industrial nation, and this requires the active participation of government, labor and industry in a major reindustrialization effort.

The AFL-CIO, therefore, recommends that the Congress establish a tripartite National Industrial Policy Board to identify, analyze, and structure industrial development strategies and means of assistance to be pursued with regard to specific regions and industrial sectors that are of basic importance to the nation's economic future, national security, and international competitiveness.

MEETING THE NEEDS OF STATES AND LOCALITIES

The Administration's economic polices pose a serious threat to progress towards meeting the needs of states and localities, particulary for the most hard-pressed and declining areas and local communities, Despite the hollow rhetoric of the Administration's "New Federalism," the federal government's commitment to states and localities will be compounded by a lack of funds to reverse the deterioration of the nation's infrastructure—streets and highways, bridges, buses and subways, ports, parks, railways, water and sewers—and neglect of education and the public welfare of citizens.

To meet state and local human and capital investment needs and to bolster the cities, it is clear that a return to strong and sustained overall economic growth is needed in the 1980s. The AFL-CIO jobs stimulus program, which was offered for fiscal year 1984 and beyond, is aimed at needed growth and job creation. The program would benefit cities and their inhabitants through community development supplemental jobs, accelerated public works, youth employment, aid for displaced workers, housing, unemployment insurance and health care. In addition, the following actions are urged.

Federal general revenue sharing and programs for economic and community development—such as those of the Economic Development Administration Community Development Block Grants, and Urban Development Action Grants—should be continued and funded to maintain at the least the levels of services that existed prior to the Reagan Administration. Grant-in-aid programs vital to rebuilding the nation's infrastructures should be continued as separate and independent operating activities and not be allowed to disappear or lose their national interest purpose through block grant consolidations.

Legislation should be enacted to deal effectively with economic dislocations and the human hardship brought on by plant closings and relocation of facilites. Employment and training policy much fully address the retraining and relocation needs of displaced and disadvantaged workers. Federal funding for training under the Job Training Partnership Act, especially for dislocated workers, should be greatly increased. Proposals for Enterprise Zones, which will result only in giveaways of badly needed public funds and a wasteful competition for existing businesses without any net addition of jobs, should be rejected.

Mass transit capital and operating fund levels should be restored so that services can be improved, fares kept reasonable, ridership increased, pollution and traffic congestion reduced, and energy conserved.

The states, with their broader tax base, must increase their commitment to urban areas. The temptation to meet revenue needs solely through additional taxes and fees on the goods, services and homes of working people must be resisted and destructive competition for industry through preferential tax giveaways must be rejected. The states must continue to be permitted to tax their fair share of the income of multi-state and multi-national corporations.

The basic tax structures of the states and localities must be made more equitable and more productive, particularly since the federal goverment is shirking its responsibilities, and cities and states must rely more on their own resources to meet ongoing needs as well as the need to repair and replace capital facilities. This requires an increased reliance upon progressive taxes on individual and corporate income, correcting some of the regressive features of sales taxes and making specific, selective reforms in the structure and administration of property taxes.

Mr. PEASE [presiding]. Thank you.

Our next witness is Martin Levine, Deputy Assistant Director for Education, Employment, Housing and Community Development, CBO.

STATEMENT OF MARTIN D. LEVINE, DEPUTY ASSISTANT DIRECTOR FOR EDUCATION, EMPLOYMENT, HOUSING AND COMMUNITY DEVELOPMENT, CONGRESSIONAL BUDGET OFFICE

Mr. LEVINE. Thank you, Mr. Chairman.

Mr. DUNCAN. I wanted to ask unanimous consent that all the statements be entered in the record.

Mr. PEASE. I would entertain that.

Mr. DUNCAN. I would like to move they be so entered.

Mr. PEASE. Without objection, the full statements of all of you will be entered. I hope you can summarize your statements within 5 minutes.

Mr. LEVINE. At the committee's request, I will address one central issue raised by enterprise zone proposals—how to determine what areas should receive aid.

The proposals pending before the committee call for only a limited number of areas to be designated. In each proposal, States or cities would nominate the areas that met certain criteria specified in the bills. Then, the Federal Government would designate a fixed number of zones from among eligible applications.

Within this framework there are three key questions in determining which areas receive aid. First, should aid be limited to distressed cities and counties or should any locality be allowed to apply on behalf of its pockets of distress? Second, what standards should be used to designate an area as distressed? Third, what considerations should guide the Federal Government in selecting from among eligible applicants?

With respect to the first question, since only a small number of enterprise zones would be chosen, limiting eligibility to areas within distressed local governments would direct scarce Federal aid to the areas with fewest resources to help themselves. However, this would, of course, exclude some areas from consideration. One alternative would be to allow any locality to apply but require that better-off jurisdictions commit a greater share of their own resources.

The second question is what characteristics should be used to measure distress and what standards should zones be required to meet in order to be eligible for consideration.

The decennial census is the only uniform nationwide data source available to measure conditions in subjurisdictional areas. This information is aggregated and made available for areas as small as city blocks, but it is more reliable at the census tract level—groupings of blocks that together generally contain about 2,500 to 8,000 people.

Decennial census data can be used to measure only some types of small-area distress, however. The available data report only on area residents and their housing. The decennial census does not include information on area economic conditions, such as the number and types of jobs, the distribution of employment across occupations, or the relative amounts of commercial and industrial activity. Nor does the census report on physical characteristics of an area such as the type and condition of nonresidential buildings.

The specific census characteristics used by enterprise zone proposals include household or family income figures, the area unemployment rate, and population loss.

Two types of income measures are commonly used to identify concentrations of people who lack opportunities to work or who work in low-paying jobs. One approach is to apply a uniform standard such as the Federal poverty guidelines. The official poverty level, although it does not take into account differences in living costs across the country or differences in noncash income, is one threshold below which families are likely to suffer some hardships. For example, in 1982, the poverty guideline for a four-person household was slightly below $10,000.

A second approach is to compare household incomes to an area average. For example, designating households with incomes below

80 percent of the area median as low income. This approach is intended to take account of the differences in living cost across areas, but it can result in fairly well-off households within high income cities being designated as distressed.

Another measure of economic distress in an area is its unemployment rate. Unemployment rates are available monthly for the Nation as a whole, for States, and for cities with populations over 50,000. But, estimates are available only once a decade for smaller areas, the kinds of areas that enterprise zones would be expected to address. Because unemployment is highly cyclical, however, the level and geographic pattern of unemployment reported in the 1980 census will not hold for long, particularly for small areas. So, later in the decade the pattern of unemployment reported in the 1980 census will become increasingly inaccurate.

Population loss also is regarded as a proxy for disinvestment in an area. While that may reflect disinvestment, it may also accompany replacement of larger families with smaller ones, or conversion of multi-family housing into single-family dwellings. Measuring decline in the number of households rather than in the number of people would take account of the changes in family size but not the loss of dwelling units through conversions.

Once the criteria for measuring distress have been selected, the specific areas that qualify would depend on thresholds established for each criterion, the number of criteria the zones had to satisfy, and whether each tract in a zone had to meet the criteria independently.

The last point is of particular significance. Mandating that each census tract meet the eligibility requirements on its own would help exclude better-off pockets, but could limit flexibility in drawing boundaries for the zones.

Finally, the instructions provided to either the Secretary of HUD or the Secretary of Commerce to guide the selection process will also help determine what areas receive aid.

Since the enterprise zone concept is untried, the Congress could require that the selecting agency choose a wide variety of areas as zones to evaluate effects of the designation on different areas. The Congress could also require the Secretary to consider such additional factors as the fiscal condition of the State or locality, its willingness to commit its own resources, and the likelihood that Federal incentives would affect the pattern of local economic activity.

My full statement contains futher elaboration on those points and includes a comparison of the three bills with respect to the criteria I have described.

[The prepared statement follows:]

STATEMENT OF MARTIN D. LEVINE, DEPUTY ASSISTANT DIRECTOR FOR EDUCATION, EMPLOYMENT, HOUSING AND COMMUNITY DEVELOPMENT, CONGRESSIONAL BUDGET OFFICE

Several proposals now pending before the Congress would institute a new approach for addressing the problems of economically distressed areas within cities and other local jurisdictions. These proposals would attempt to induce businesses to locate or expand in designated "enterprise zones" by lowering selected federal taxes and, in some instances, by increasing state and local aid to the areas.

Enterprise zones represent a new concept for spurring economic development in distressed areas. Current federal economic development aid is provided through direct expenditure programs. Jurisdictions—which generally must meet eligibility critera based on overall conditions—plan specific development projects and apply for federal grants. The federal government thus maintains control over the type and location of projects receiving aid. By contrast, under enterprise zone proposals, a limited number of areas within different cities would be identified, and all busineses within those areas that meet criteria established by law would automatically qualify for certain tax reductions and other benefits.

Enterprise zone proposals raise a number of issues. One basic question is who the intended beneficiaries of an enterprise zone policy would be. Is the policy intended primarily to increase employment among residents of a zone or to stimulate development in areas with abandoned or underused facilities? Another question is what types of incentives would be required to change the locational decisions of firms and whether the incentives required would vary for different types of firms or locations. A third issue is the types of areas to designate as enterprise zones: residential areas with concentrations of low-income or unemployed people, outmoded industrial quarters, neighborhood commercial districts, or downtown business districts, for example.

At the Committee's request, I will address just one of the central issues raised by the concept of enterprise zones—establishing criteria to determine which areas receive aid. I will cover three topics: Considerations in designating enterprise zones; the criteria used in two current federal programs to target assistance on small areas; and targeting provisions under three enterprise zone proposals now before the Committee.

CONSIDERATIONS IN DESIGNATING ENTERPRISE ZONES

The principal proposals pending before this Committee call for only a limited number of areas to be designated as enterprise zones—from 75 to 205. In each proposal, states or cities would nominate areas that met certain criteria specified in the bills. Then, either the Secretary of Housing and Urban Development (HUD) or the Secretary of Commerce would designate a fixed number of enterprise zones from among eligible applications.

The key questions raised in designating zones are thus: What sorts of areas should be eligible to become enterprise zones? And, what considerations should guide the federal government in selecting zones from among eligible applicants?

Eligibility standards for enterprise zones

The areas that would be eligible to become enterprise zones would depend on three factors: The characteristics used to measure economic distress; the thresholds that distinguish eligible from noneligible areas; and which governments are allowed to nominate enterprise zones.

Characteristics used to measure distress.—The decennial Census is the only uniform, nationwide data source available to measure economic distress in subjurisdictional areas. In 1980, the Census gathered basic information on all Americans, as well as additional income, employment-status, and housing information for about one in every six people. This detailed information is aggregated and made available for areas as small as city blocks, but is more reliable at the census tract level—groupings of blocks that together generally contain between 2,500 and 8,000 persons.

The decennial Census data can be used to measure some but not all types of subjurisdictional distress. The available data report only on area residents and their housing. The decennial Census does not include information on area economic conditions, such as the number and type of jobs, the distribution of employment across occupations, or the relative amounts of commercial and industrial activity. Nor does the Census report on physical characteristics of an area, such as the type and condition of nonresidential buildings.

The specific Census characteristics that could be used to measure economic distress of area residents include: household or family income, the unemployment rate, population loss, and housing-quality characteristics.

Income.—Two types of income measures are commonly used to identify concentrations of persons who lack opportunities to work or who work in low-paying jobs; each is represented in current enterprise zone proposals. Our approach is to apply a uniform standard such as the federal poverty guidelines. The official poverty level—although it does not take account of differences in living costs across the country or differences in noncash income—is one threshold below which families are likely to suffer some hardships. At the time of the last decennial Census, the poverty threshold was $8,400 for a nonfarm family of four, and 13 percent of all persons lived in poverty.

A second approach is to compare household incomes to an area average—for example, designating households with incomes below 80 percent of an area median as low-income. This approach is intended to take account of differences in living costs across areas, but it can result in fairly well-off households within high-income cities being designated as "distressed." For instance, under two of the pending enterprise zone proposals, households in Livonia, Michigan with 1980 incomes below $24,000 would be considered low-income.

Unemployment.—Another frequently used measure of economic distress in an area is its unemployment rate. Unemployment rates are available monthly for the nation as a whole, for states, and for cities with populations over 50,000. But estimates are available only once a decade for smaller areas. Because unemployment is highly cyclical, the level and geographic pattern of unemployment reported in the 1980 Census will not hold for long, particularly across areas as small as census tracts. Setting a very high unemployment standard might partially circumvent this problem, because even with changes in the geographic pattern of unemployment, tracts with very high jobless rates in 1980 are likely to continue to be among the more distressed areas some years later.

Population loss.—Population loss is often regarded as a proxy for disinvestment in the area. While population loss may indeed reflect disinvestment, it may also accompany the replacement of larger families with smaller ones, or the conversion of multi-family housing into single-family dwellings. Measuring decline in the number of households, rather than in the number of people, would take account of changes in family size, but not the loss of dwelling units through conversion.

Housing characteristics.—The only physical characteristics of subjurisdictional areas recorded in the decennial Census are measures of housing quality, such as the proportion of units lacking complete plumbing facilities, and the proportion of units built before 1940. Although such measures could assist in identifying areas with decaying residential buildings, they are not direct measures of economic distress. None of the current enterprise zone proposals would rely on them.

Distinguishing distressed from nondistressed areas.—Once the criteria for measuring distress had been selected, the number of zones that could qualify would depend on the threshold established for each criterion and on the number of criteria zones had to satisfy. Thresholds could be set in either of two ways. The Congress could designate an absolute standard—requiring, for example, that areas have a 1980 unemployment rate at least twice the national average, or above 13.8 percent in that year. Applying this criterion, census tracts containing about 7 percent of the U.S. population would qualify. Alternatively, the threshold itself could be set in such a way as to designate the share of areas that would qualify—for example, specifying that only the 5 percent of all census tracts with the highest umemployment rates would qualify on that criterion. For 1980, this would imply a threshold unemployment rate around 15 percent.

The number of different criteria that zones had to meet would also affect the number of zones that could qualify, with great numbers of requirements resulting in fewer zones qualifying. If, for instance, a zone had to have either an unemployment rate of at least twice the national average or a poverty rate of at least 20 percent, census tracts containing roughly 20 percent of the population would qualify. If, on the other hand, census tracts had to satisfy both criteria, census tracts with approximately 5 percent of the U.S. population would qualify.

The nature of zones—rather than their number—would depend, in part, on whether each census tract in a zone had to meet the distress criteria, or only the zone as a whole had to qualify. Mandating that each census tract in a zone meet the eligibility requirements on its own would help excl;ude better-off pockets but could limit flexibility in drawing zone boundaries, possibly excluding some sites well suited for development. Requiring that all census tracts qualify individually, but allowing limited exceptions, would maintain some flexibility while targeting aid on the most distressed areas.

Application requirements.—A third question in establishing eligibility requirements is which governments should be allowed to nominate enterprise zones and what commitments they should make to aid the zones selected.

The Congress could allow all localities to submit enterprise zone nominations or could limit applicants to those localities that are themselves distressed. Since only a small number of enterprise zones would be chosen, limiting eligibility to zones within distressed local governments would direct federal aid to the areas with the fewest resources to help themselves. This would, however, exclude some distressed areas for consideration. A similar concern is whether state and local governments would be required to make nominations jointly. Requiring state cooperation in selecting potential enterprise zones could help limit the number of applicants made and could increase state attention on distressed zones. It could also, however, exclude some highly distressed areas if a state government were unwilling to nominate them and localities could not proceed alone.

Another consideration is whether nominating governments should be required to commit their own resources to aid their distressed areas. Such a requirement could increase the total amount of resources devoted to enterprise zones, but could burden fiscally distressed jurisdictions. One way around this problem would be to require that better-off jurisdictions commit a greater share of their own resources to aiding their pockets of distress.

Selecting enterprise zones from eligible applications

Current enterprise zone proposals would leave the final selection of zones to either the Secretary of HUD or the Secretary of Commerce. Because the number of eligible applications is likely to far exceed the number of zones to be designated, the Congress might wish to provide instructions to guide the selection process.

Since the enterprise zone concept is untried, the Congress could require that the selecting agency choose a wide variety of areas as Zones to evaluate the effects of enterprise zone designation on different types of areas. Zones could be designated, for example, in both urban and rural areas, in jurisdictions of varying sizes, and in communities with different industrial and commercial bases. The zones themselves could also differ: some could be primarily residential areas, some neighborhood shopping areas, others industrial sections, and still others central business districts. Because nationwide data are not available to distinguish zones on this basis, the Congress would have to rely on the administering agency to make such determinations, possibly using locally gathered information.

Finally, the Congress could also require that the Secretary consider such additional factors as: the fiscal condition of the state or locality applying its willingness to commit its own resources, and the likelihood that the federal incentives would affect the patterns of local economic activity.

TARGETING PROVISIONS OF CURRENT PROGRAMS

Two current federal programs target aid on subjurisdictional areas, but they differ substantially in their targeting provisions. Under the Urban Development Action Grant (UDAG) program—which provides direct grants for local economic development projects—all funds must be spent either in distressed cities and urban counties or in pockets of distress within healthier jurisdictions. By contrast, under the mortgage revenue bond program—which allows the issuance of tax-exempt bonds to finance single-family homes—up to 80 percent of funds may be used anywhere, and only 20 percent are reserved for targeted areas.

While the relative amounts of aid these two programs provide to targeted areas vary greatly, the eligibility requirements for target areas are similar. Under the UDAG program, entire cities or urban counties may qualify for aid if they meet several of a list of distress standards, including measures of income, housing quality, and employment. Jurisdictions that fail to qualify as a whole may be eligible for aid if they have distressed areas within their boundaries—referred to as "pockets of poverty." Subjurisdictional distress is measured by the area poverty rate and the proportion of households with low incomes; funds awarded on this basis must be used within the pocket of poverty. Under the mortgage revenue bond program, target areas include all census tracts with high percentages of low-income families and those areas designated by the Secretaries of HUD and Treasury as suffering chronic economic distress, based on area housing conditions and income levels. Roughly one-fourth of the U.S. population lives in cities or counties that meet the UDAG jurisdiction-wide eligibility criteria, and about the same percentage live in areas of chronic economic distress identified under mortgage revenue bond provisions.[1] (Eligibility standards are described in more detail in Appendix A.)

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[1] Both the UDAG and mortgage revenue bond estimates underreport the total U.S. population living in targeted areas. The UDAG estimate does not include the population in areas that could qualify under the pockets-of-poverty provisions, because such data are unavailable. However, HUD estimates that less than 2 percent of the cities and counties that do not meet jurisdiction-wide criteria contain areas that could meet pockets-of-poverty requirements. The mortgage revenue bond estimate excludes any census tracts that qualify independently on the basis of low income and are not included in the HUD- and Treasury-designated areas. About 6 percent of all census tracts qualify as low-income, but the overlap with "areas of chronic economic distress" is unknown.

TARGETING PROVISIONS OF ENTERPRISE ZONE PROPOSALS

The three enterprise zone proposals that the Committee is considering today—H.R. 1955, H.R. 1735, and H.R. 2375—contain markedly different targeting provisions (see Table 1).

TABLE 1.—MAJOR ELIGIBILITY PROVISIONS OF ENTERPRISE ZONE LEGISLATION

Provision	H.R. 1955	H.R. 1735	H.R. 2375
Number of Zones to be Designated.	75	205	75.
Application Process:			
Nominating government.	State and local	State and local [1]	Local.
Other requirements	State and local governments must develop and follow plan to reduce burdens on employers or employees in area, such as reducing taxes, increasing service efficiency, reducing government regulations, or involving private firms in job training and other activities.	Local government must prepare revitalization plan; must establish revitalization management authority; and must consult with area citizens and firms.	None.
Area Requirements:			
Population	Minimum: 4,000 if in metropolitan statistical area of 50,000 or more; 1,000 for others.	Minimum: 4,000 for cities of 50,000 or more; 2,500 for others.	Minimum: 5,000.
Boundaries and geographic size.	Continuous boundaries. No limit on geographic size.	Continuous and include, where feasible, vacant or underutilized buildings. Minimum size of 1 square mile.	Continuous boundaries. No limit on geographic size.
Other	At least one-third of selected zones must be in jurisdictions with populations below 50,000 that are also rural areas or that are outside metropolitan statistical areas.	None	Local jurisdiction must contain at least 10,000 people.
Distress Criteria:			
For zone	Must be an area of pervasive poverty, unemployment, and general distress, and	Must be an area of pervasive poverty, unemployment, and general distress, and	Must have rate of unemployment for most recent 2-year period at least 1 percentage point higher than national average for period; or
	Must meet at least one of following: (1) rate of unemployment at least 50 percent higher than U.S. average for specified period; or (2) poverty rate of at least 20 percent in each census tract within area; or (3) at least 70 percent of households with incomes below 80 percent of local government median; or (4) area population declined by 20 percent or more between 1970 and 1980	Must meet at least one of following: (1) rate of unemployment for most recent 18 months at least 50 percent higher than U.S. average for period; or (2) each census tract must be low-income poverty area determined by Bureau of Census; or [2] (3) at least 60 percent of area residents with incomes below 80 percent of local government median; or (4) area population decreased by 10 percent or more between 1970 and 1980, and local government can show area has chronic abandonment or substantial tax arrearages.	Must have experienced or be about to experience sudden job loss that is significant both in terms of number of jobs lost and effect on area unemployment rate.

TABLE 1.—MAJOR ELIGIBILITY PROVISIONS OF ENTERPRISE ZONE LEGISLATION—Continued

Provision	H.R. 1955	H.R. 1735	H.R. 2375
For overlying jurisdiction.	Must be eligible for aid under the Urban Development Action Grant program.	None	None.
Selection criteria for administering agency.	Secreatary of HUD shall consider: extent and quality of state and local plan and other commitments; economic conditions in zones; ability to stimulate new economic activity and minimize unnecessary tax loss; private commitments to plan.	Secretary of HUD shall consider: degree of general distress; local government commitment; area's ability to make promised commitments; extent to which area plan conforms to any state plans.	Secretary of Commerce shall select zones. No selection criteria specified.

[1] Includes a provision for local governments to nominate zones independently if a state government fails to act on a request for nomination.
[2] Low income poverty areas are those with poverty rates of 20 percent or more.

Source: Congressional Budget Office.

H.R. 1955

Of the three proposals reviewed, H.R. 1955 has the most stringent eligibility standards. The bill would allow only those jurisdictions eligible for aid under UDAG's jurisdiction-wide criteria, or jurisdictions containing UDAG-eligible pockets of poverty, to nominate areas as enterprise zones. To be eligible, a zone would have to be found by the Secretary of HUD to be an area of pervasive poverty, unemployment, and general distress—though the legislation does not specify standards for these characteristics. In addition, a zone would have to meet at least one of four specific criteria: an unemployment rate at least 50 percent higher than the national average, a poverty rate of 20 percent or more, an income distribution in which at least 70 percent of area households had incomes below 80 percent of the area median, or a 20-percent-or-greater population loss between 1970 and 1980.

This bill would require that applications be submitted jointly by state and local governments, which would be expected to develop plans for reducing burdens on zone employers and employees through, for example, tax reductions or service increases. In selecting enterprise zones from among eligible applicants, the Secretary would be expected to weigh such factors as the degree of distress experienced in proposed enterprise zones, the fiscal condition of the governments applying for aid, and the willingness of states and localities to commit their own resources to the economic development effort.

H.R. 1735

In many respects, H.R. 1735 is similar to H.R. 1955, but it has less stringent targeting provisions. The principal difference is that under H.R. 1735, any local government could nominate enterprise zones—regardless of whether the locality could qualify for aid under UDAG. As under the first bill, the nominated areas would have to be classified as experiencing pervasive poverty, unemployment, and distress and would have to meet at least one of four specific distress measures. The four characteristics used to measure distress would be the same as in H.R. 1955, but the thresholds established for two of them would differ somewhat.[2]

H.R. 2375

H.R. 2375—which would authorize an enterprise zone program as part of a larger economic development act—would approach eligibility differently than the other two bills, relying solely on employment characteristics. It would allow nominations to be made by any local government, regardless of its degree of economic distress. To be eligible, zones would have to meet one of two criteria based on rates of unemployment and loss of area employment. Unlike the other two bills, H.R. 2375 would not require that nominating jurisdictions commit local resources to aid enterprise zones, nor would it establish selection criteria for use by the federal agency responsible for designating zones.

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[2] H.R. 1735 would use a less stringent income requirement than H.R. 1955. It would also use a less stringent threshold for population loss than H.R. 1955, but the areas meeting the population-loss standard would also have to show that substantial tax arrearages and chronic abandonment have occurred in the zone.

Comparisons with the UDAG program

Another way of viewing these bills is to compare their targeting provisions to those governing UDAG. In one respect, all of the enterprise zone proposals would be less restrictive than the UDAG program. While the UDAG program provides aid only to specific projects within targeted areas, enterprise zone designation would confer tax advantages and other benefits on all qualifying firms within the zone.

With regard to area eligibility criteria, H.R. 1955, which has the most restrictive criteria of the three enterprise zone proposals, would also define eligible areas somewhat more narrowly than UDAG. While H.R. 1955 would allow all cities and counties that meet UDAG's jurisdiction-wide or pockets-of-poverty criteria to apply, it would then limit aid to distressed zones within these jurisdictions. The other two bills—H.R. 1735 and H.R. 2375—are more difficult to compare to the UDAG program. Each of the bills would allow UDAG-ineligible cities or counties to apply—thus broadening eligibility relative to UDAG—but, as under H.R. 1955, each bill would require that within participating jurisdictions aid be limited to pockets of distress.

APPENDIX A.—MAJOR ELIGIBILITY PROVISIONS OF THE URBAN DEVELOPMENT ACTION GRANT PROGRAM AND THE MORTGAGE REVENUE BOND TAX PROGRAM

TABLE A-1.—*Major eligibility provisions of the urban development action grant program*

PART I.—ELIGIBILITY CRITERIA FOR WHOLE JURISDICTIONS

Standards for determining eligibility

A housing stock with at least 33.98 percent of all units built before 1940 for large cities and 33.81 percent for small cities.

For large cities, a net increase of $2,683 or less in per-capita money income for the period 1969 to 1977. For small cities, a net increase of $4,062 or less for the period 1969 to 1979.

At least 10.87 percent of the population at or below the poverty level for large cities, and 11.99 percent for small cities.

For large cities, a rate of population growth between 1960 and 1980 of 19.82 percent or less. For small cities, a rate of population growth between 1970 and 1980 of 1.13 percent or less.

An average rate of unemployment for 1981 of 7.24 percent. (This standard does not apply to small cities.)

A rate of growth in retail and manufacturing employment between 1972 and 1977 of 6.75 percent or less for large cities and 6.84 percent or less for small cities. Data for one employment type alone can be used where the other is missing. Where no data are available, the standard does not apply.

Number of standards that must be met

Large cities and urban counties [1].—Any three of the six standards if the percent of persons in poverty is at least one-half the standard; or four of the five standards other than poverty is the poverty level is less than one-half the standard.

Small Cities—cities with 25,000 to 50,000 population.—Any three of the five applicable standards [2] if the percent of persons in poverty is at least one-half the standard; or one other standard if the percentage of persons in poverty is at least two times the standard; or the poverty standard and a pecentage of older housing units at least twice the standard; or all four of the other applicable standards if the percent of persons in poverty is less than one-half the standard.

Cities with less than 25,000 population.—Any three of the four applicable standards [2] if the poverty level is at least one-half the standard; or, one other standard if the poverty level is at least twice the standard; or, the poverty standard and a percentage of older housing units at least twice the standard.

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[1] Includes cities with populations of 50,000 or more and cities with populations under 50,000 that are central cities of metropolitan areas.

[2] Data limitations constrain the use of the unemployment standard for cities with population under 50,000 and the use of the employment standard for cities under 25,0000.

Source: Federal Register, March 1, 1983, June 7, 1982, and February 23, 1982. Section 119 of the Housing and Community Development Act of 1974 (Public Law 93-383).

PART II.—ELIGIBILITY CRITERIA FOR POCKETS OF POVERTY

For cities of 50,000 or more in population or for urban counties, pocket must be groups of continuous census tracts, enumeration districts, or blocks having a population of 10,000 or at least 10 percent of the area's population; and at least 70 percent of zone residents must have incomes below 80 percent of city or urban county median; and at least 30 percent of residents must have incomes below the federal poverty level.

TABLE A-2.—*Major eligibility provisions for targeted areas under the mortgage revenue bond tax program*

Areas may qualify in either of two ways:

Qualified census tract.—Any census tract in which 70 percent or more of the families have incomes 80 percent or less of the statewide median family income. or,

Area of chronic economic distress.—A state government may apply to the Secretary of Housing and Urban Development and the Secretary of the Treasury to have an area—census tract, city, or county—designated as an area of chronic economic distress. The area must exceed the statewide average on a majority of items listed under each of four criteria.

1. Condition of housing stock: Percentage of units constructed prior to 1940, average age of the housing stock, percentage of abandoned housing units, and percentage of substandard residential units.
2. Need of area residents for owner financing: Per capita income, percentage of families in poverty, number of welfare recipients, and unemployment rate.
3. Potential for the use of owner financing to improve area housing conditions: Percentage of owner-occupied homes that are substandard and percentage of families that are low- or moderate-income renters.
4. Existence of a housing assistance plan which provides a displacement program and a public improvement and services program; must provide the existing housing assistance plan as part of its application.

Source: Federal Register, July 1, 1981.

Mr. PEASE. Thank you very much, Mr. Levine. We appreciate your testimony.

Next we will hear from Marc Bendick, Jr., an economist with the Urban Institute.

STATEMENT OF MARC BENDICK, JR., ECONOMIST, THE URBAN INSTITUTE

Mr. BENDICK. Thank you, Mr. Chairman.

I come before you as a nonpartisan researcher on urban enterprise initiatives in the last several years. There are three main conclusions set forth in my testimony.

First, the enterprise zone approach to revitalizing the economy of distressed local areas is not likely to work because it is based on erroneous assumptions about how urban areas revitalize, how businesses generate jobs and how Government can most usefully aid business.

Two, an alternative approach can work, one which operates primarily through explicit Government expenditures.

Three, specially targeted Federal tax incentives are generally not the most cost effective way for Government to provide assistance to workers and firms in distressed areas.

In developing these conclusions, I draw upon the body of facts and experience concerning the process of urban growth developed over the past 30 years. From this body of experience two facts stand out.

First, there is a strong competitive aspect to the development of distressed localities. Realistically, spatially targeted local development activities are primarily a means of making the target area attractive for economic activity which would exist somewhere rather than generating jobs and incomes which would not otherwise exist.

Second, in most circumstances substantial government action is required to prod, to speed and to direct the private real estate market in moving the area through a period of decay and into a period of revitalizing and renewed prosperity.

In light of these facts, how likely is the program in H.R. 1955 to function efficiently and effectively as an urban redevelopment initiative? Because of this committee's particular focus, I will comment only on the tax incentives aspect of this question. My general conclusion is that the tax incentives proposed by the administration are not particularly well designed to relieve the most serious constraints on inner city business survival and growth.

The most obvious shortcoming from the point of view of aiding firms on the margin of survival is that most of them are based on the corporate income tax and, therefore, are largely unavailable to unincorporated small businesses and nonprofit organizations, both of which are important sources of employment.

An even more crucial shortcoming is the proposed credits are nonrefundable in form. This means that firms not showing a profit in the current year can make little use of them. New, small firms and firms struggling to get established are exactly the type of businesses which need help most and yet are least likely to experience a current year profit.

Even for those firms able to take advantage of the tax benefits, however, the experience of past tax credit programs is that such incentives engender only modest changes in business behavior, particularly with respect to hiring disadvantaged workers. The past experience of the targeted jobs tax credit, for example, is that they get used by few firms. And when they are used, they are largely claimed for hires which would have been made in the absence of the credit. In that case, most of the revenue loss to the Federal Treasury represents a windfall gain to the firms with little new employment generated.

It should also be noted that the type of business behavior which the tax breaks are most likely to induce is not the birth and growth of firms indigenous to the zones but rather relocation of existing firms. Of course, the major determinant of where firms located are not tax incentives but instead are considerations of business efficiency. However, within a metropolitan area, the major factors of business efficiency are largely equalized so in selecting among sites all within a few miles of each other, tax incentives can prove very important.

To some extent, an important public purpose might be served by relocation of existing firms within the zones. Such purposes might include strengthening the central city tax base and making jobs somewhat more accessible to disadvantaged innercity residents. But the magnitude of the benefits will be modest because the firms most likely to make the moves are firms which probably would have located fairly close to the zones in any case.

The extent to which net new taxes are likely to be generated to offset tax revenues lost within the zones must be estimated to be very modest instead, and the notion that the program would be self-financing, or approximately so, is simply not credible.

A further effect which might also develop is that the local real estate market is likely to react to a substantial inmigration of firms by raising the price of real estate. This capitalization of the incentives into the value of land would tend to make the owners of real estate within the zone better off, but neither firms nor local job seekers would be.

Finally, questions must be raised about the types of firms which would migrate into the zones in response to incentives. The experience in many localities using local tax relief to attract firms is that such firms tend to move out of the area as soon as the tax relief expires. For another thing, the capital gains exemptions in the administration's proposal are probably difficult to design so they can simultaneously offer a significant incentive and yet avoid brass plate type business operations in which there would be heavy revenue losses to the Treasury with very few jobs created within the zone.

What then should the Federal Government do to promote employment and economic activity in the inner city? The answer lies in the past history of Federal involvement and in the existing Federal programs designed to aid small business, to recycle urban land, and to train workers.

In the case of small business, loan subsidies, loan guarantees and technical assistance and management training programs, such as currently operated by the SBA, directly address their highest priority needs for growth and survival which are shown by survey after survey to be affordable financing and skill development and business management.

For larger firms, what is largely called for is land assembly, investment in infrastructure, and upgrading of city facilities and services—the use of public planning, public expenditures, and the power of eminent domain to create secure modern, large-scale, nonresidential, industrial and office parks which can compete effectively against alternative suburban locations. UDAG, community development block grants, and other programs such as those of the Economic Development Administration are set up to play this role.

And for inner-city residents themselves seeking employment, Government-financed training such as is operating currently through the Job Training Partnership Act is the most likely vehicle and has a demonstrated record of cost effectiveness.

The common element among these approaches is they operate through explicit expenditures, which tend to avoid many of the problems of tax relief proposals mentioned earlier in this statement, and they rsepond directly to the most pressing needs which businesses themselves articulate.

Mr. PEASE. Could you summarize now?

Mr. BENDICK. That concludes my statement.

[The prepared statement follows:]

Statement of Marc Bendick, Jr., the Urban Institute

Mr. Chairman and Members of the Committee, I appreciate this opportunity to participate in these hearings on enterprise zones and other tax incentive approaches to the revitalization of distressed areas. I am Dr. Marc Bendick, Jr., an economist with The Urban Institute, which is a nonprofit, nonpartisan public policy research center in Washington, D.C.[1] My remarks today are based on a study of urban enterprise zone initiatives at both the federal and state level in which I have been engaged over the past two years,[2] as well as involvement in urban economic redevelopment—as researchers and as practitioner—for the past twelve years.

There are three primary conclusions about which I wish to convince you in this testimony:

First, the enterprise zone approach to revitalizing the economy of distressed local areas is not likely to work because it is based on erroneous assumptions about how urban areas revitalize, how businesses generate jobs, and how government can most usefully aid business.

Second, an alternative approach to revitalizing the economy of distressed local areas can work. That approach involves an active government role in urban planning and explicit government expenditures, more in the tradition of federal urban revitalization programs of the past twenty years than of the enterprise zone philosophy of reduced government.

Third, in general, spatially-targeted federal tax incentives are not the most cost-effective way for government to provide assistance to firms or workers in seeking to promote employment and economic growth in distressed areas.

The specific focus of my remarks is the Reagan administration's proposal for a federal enterprise zones program as embodied in H.R. 1955, The Enterprise Zone Employment and Development Act of 1983. However, the main themes of my statement also apply to other current proposals for tax-incentive based programs for distressed areas, including H.R. 1735, The Community Assistant and Revitalization Act of 1973, and H.R. 2375, The Enterprise Development and Industrial Revitalization Act of 1983.

WHAT WE KNOW ABOUT THE RECYCLING OF URBAN LAND

In developing my three conclusions, I will begin by setting forth the state-of-the-art view of the process of urban growth and decline which has developed over the past thirty years, based both on formal research and on practical experience. This view is rejected by advocates of the enterprise zone approach, but ultimately the reality embodied in it will ensnare enterprise zone programs in its inexorable grasp.

The first tenet of this view is that there is a very strong "zero-sum" ("I can win only if you lose") aspect to the development of distressed local localities within a metropolitan areas. To be sure, it is clear that when the entire nation prospers or the entire region grows, then some of this prosperity "trickles down" to even the poorest neighborhoods; and conversely, when the nation is in recession or the entire region is in decline, it is difficult for any neighborhood-specific effort to generate new jobs or prosperity in the face of the general trend. But this having been said, it must be recognized that there are inevitably competitive aspects to local area development: If a company locates in area A, that means that it has not located in area B; if area B rebounds from distress to prosperity, then the low income residents who once resided in B are displaced into area C. Realistically, spatially-targeted local area development activities are primarily a means of making the target area a more attractive locale for economic activity which will exist somewhere, rather than generating jobs and income which would now otherwise exist.

Considerable historical and analytical evidence supports this principle. Typically, the very areas within cities which in the 1980s are the object of public concern were prosperous industrial or commercial areas or fashionable residential sections perhaps fifty years before. Prosperity fled when newer areas—typically further away from the city center—developed which offered a new generation of building and infrastructure, more amenities such as space for expansion, and an escape from such disamenities as crime, unattractive neighbors, and overburdened facilities and services. This shift in the locus of prosperity has occurred on a major scale. For example, between 1970 and 1977, while total employment grew nearly 26 percent in the surburban fringe of major U.S. metropolitan areas, it fell a fraction of one percent in the central cities of these areas, with the distressed subareas of the central cities bearing the brunt of the loss.[3]

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[1] Opinions expressed in this statement are my own and do not necessarily reflect those of The Urban Institute, its trustees, or its sponsors.

[2] See Marc Bendick, Jr., and David W. Rasmussen, "Enterprise Zones and Inner City Economic Revitalization," in George Peterson (editor) Reagan and the Cities. Washington, D.C.: The Urban Institute Press, forthcoming.

The same competitive process which generates the decline of an area in one era can lead to its regeneration at a later time. Inner city locations retain their advantages of central location and access to urban facilities. Eventually, suburban areas may find their own stock of business facilities and infrastructure aging and their own public services overburdened. If, in the meantime, the buildings in the older areas have dropped sufficiently in value and occupancy that they can be replaced or rehabilitated and the area opened for new uses, then the balance of attractiveness can shift back and growth occur once again in formerly distressed areas.

There are notable examples where the private real estate market has moved urban areas through this cycle of decay and renewal largely unassisted by public action. The rebirth of Lowell, Massachusetts as a booming center of electronics manufacturing after decades as a decayed, abandoned former mill town is one. The renaissance of central city commercial areas such as those around Faneuil Hall in Boston or Harbor Place in Baltimore is a parallel phenomenon, as is the reemergence of "gentified" in-city residential areas in former slum neighborhoods such as the Georgetown or Capitol Hill areas in Washington, D.C.

Nevertheless, in most circumstances, government action is required to prod and to direct this market process. At the very least, a government role is usually required to speed the often-glacial pace at which the private recycling of land might occur. At the same time, the "externalities" or "neighborhood effects" in area development area are so strong that only public agencies can make the proper decisions concerning land use.[4] And finally, government action is usually necessary to ensure that at least some of the benefits of revitalization accrue to the low-income residents of the area rather than simply leading to their displacement.

From such considerations have emerged federal programs such as Urban Renewal during the 1950s, Model Cities during the 1960s, Urban Development Action Grants and Community Development Block Grants during the 1970s, and Economic Development Administration programs over several decades. These programs typically have provided public land assembly to speed the process of sweeping away old land uses to make way for new uses; government investment in the area, in both public infrastructure such as streets and sewers and private infrastructure such as industrial parks; publicly subsidized financing for private investment through below market rate loans or through loan guarantees; public expenditures such a special job training programs targeted on residents of distressed locales; and public planning for the future directions of urban growth. Federal outlays on such programs started at a modest $200 million in 1960, and in fiscal year 1981, the last year before the Reagan Administration took office, they stood at $9.4 billion.[5] These expenditures never grew to more than a modest scale in relation to the total level of investment in the nation; at their peak they amounted to only three percent of private fixed investment. Nevertheless, they represented a large proportion of the investment which was occuring in these distressed areas.

THE DISSENTING THEORY OF ENTERPRISE ZONES

Nothing is more anathema to the proponents of the enterprise zone approach than this view of the urban development process and the programs it spawned. These thinkers do not see urban development as a competitive process of city versus suburb; nor one of displacement of local residents as part of the process of growth; nor one in which government's role is either necessary or productive. It was with precise deliberation that one of President Reagan's early domestic policy advisors, Martin Anderson, had in a book some years ago damned the urban renewal program as a counterproductive "federal bulldozer."[6]

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[3] U.S. Bureau of the Census, "Social and Economic characteristics of the Metropolitan and Non-Metropolitan Population, 1970-1977," page 23.

[4] By "externalities," economists refer to the fact that most of the decisions made concerning a piece of property in a crowded urban environment have important effects—either positive or negative—on adjacent properties.

[5] These figures refer to outlays in function code 450 (community development, area and regional development, and disaster relief and insurance) in "Budget of the United States Government, Fiscal Year 1983." Washington, D.C.: Executive Office of the President, 1983, p. 5-93.

[6] Martin Anderson, "The Federal Bulldozer: A Critical Analysis of Urban Renewal, 1949-1962." Cambridge, MA: MIT Press, 1964.

A prototype of what the advocates of enterprise zones envision as an alternative approach to urban development is Hong Kong and similar success stories from newly-industrialized third-world nations.[7] They reasoned that rapid growth in such low-income nations was associated with an absence of government regulations, a very low level of taxation, and a high level of individual work effort and entrepreneurial initiative. If this environment were recreated in distressed areas of America's inner cities, they argued, then similar increases in income would result. Conversely, they reasoned, the pervasive intrusion of government into the economic life of these inner cities is largely to blame for the distress of these areas. Heavy taxation has reduced the financial returns to work and to investment; government planning has made cities incapable of adapting flexibility to change; welfare payments have reduced incentives to work; and government regulation has stifled business initiative. In this view, individual enterpreneurial zeal and small business opportunities would be found in ample supply in the urban ghetto if only they were allowed to flourish unburdened by government; then new income would be created by and for local residents, and neighborhoods would revitalize without displacement and without "stealing" economic activity from neighboring areas.

The centrality of indigenous small business and enterpreneurialism in this scenario for enterprise zones cannot be overemphasized. Findings from a study by researcher David Birch and his colleagues at the Massachusetts Institute of Technology seemed to confirm the sensibleness of this focus.[8] According to his work, small business (defined as having twenty or fewer employees) were responsible for generating two-thirds of all new job opportunities in the United States—a proportion far higher than their share of total employment. The focus on small firms was also consistent with another of Birch's findings—that very little of the difference in job growth between prosperous areas and declining areas is due to the migration of existing firms fleeing from a distressed area to the suburbs or to the sunbelt. Rather, the distinguishing characteristic of an area of rapid economic growth was a high rate of birth of new, small firms.

Given such evidence, it seemed clear that if a shortage of employment opportunities in the ghetto is the problem, then actions to foster the development and survival of small business should be central to the solution. Small wonder, then, that advocates of enterprise zones viewed with horror much of the past record of federal urban renewal programs, where large-scale slum clearance and land recyling was seen as destroying indigenous small enterprises. A case study of the large urban renewal project in the Hyde Park-Kenwood community in Chicago in the 1960s, for example, found that some 641 small businesses were uprooted by the project, of whom only 233 survived the disruption; at the same time, the project reduced the number of potential sites in the community for such enterprises from 2,200 to 700.[9]

Equally unappealing to advocates of enterprise zones was the past record of federal economic development programs in terms of their expense and their cost-effectiveness. In 1980, estimates were released that the federal outlays required to generate one new job in a distressed locale ran from $11,570 in the Urban Development Action Grant Program, through $13,000 per job in the Business Loan Program of the Economic Development Administration, to $60,000 per job in the local Public Works Program of the Economic Development Administration.[10] Critics attributed such high costs to the tendencies of such programs to move jobs rather than to create new ones and to the failure of programs to provide inputs which were effective in promoting business growth. This latter criticism was particularly lodged against the Local Public Work approach, which often spent its money on public infrastructure, such as residential sewer systems, which bore little direct relationship to industrial development.

The enterprise zone policies suggested to improve on this past record share one element in common with traditional federal urban revitalization initiatives: spatial targeting to a distressed subarea within a metropolitan area. In all other respects, the two approaches are mirror opposites. The presence of government was to be minimized in the area—both in the sense of removal of regulatory constraints on business activity and in the sense of minimization of public planning and special public expenditures on infrastructure, worker training, or benefits and services to residents. At the same time, tax burdens were to be sharply reduced—not as part of a competition among localities to lure firms to locate in one area rather than another on the basis of differences in tax rates but rather to increase the net financial returns to work effort and entrepreneurial risk-taking. Thus unhindered by government plans and controls, allowed to keep the rewards of their labor, and freed from competing for workers against government projects or welfare schemes, the natural wellsprings of business initiative already present in the distressed areas would at long last acheive their natural flowering.

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[7] See Stuart M. Butler, "Enterprise Zones: Greenlining the Inner Cities." New York: Universe Books, 1981: "Enterprise Zones—The Concept," Hearings before the Joint Economics Committee, U.S. Congress, October 23, 1981; and Andrew Garoogian, "Urban Enterprise Zones: A Selected Review of the Literature With Annotations." Bibliography 102. Chicago, IL: Council of Planning Libraries, 1983.

[8] See David L. Birch, "Who Creates Jobs?" The Public Interest 65 (Fall 1981), pp. 3-14.

[9] See Brian J. L. Berry, Sandra J. Parsons, and Rutherford H. Platt, "The Impact of Urban Renewal on Small Business, The Hyde Park-Kenwood Case." Chicago: Center for Urban Studies, the University of Chicago, 1968, p. XIV.

[10] See Marc Bendick, Jr., "Employment, Training, and Economic Development," in John L. Palmer and Isabel V. Sawhill (editors). The Reagan Experiment. Washington, D.C.: The Urban Institute Press, 1981, especially pp. 263-265.

THE ADMINISTRATION'S ENTERPRISE ZONE PROPOSAL

How closely does the Administration's proposed enterprise zone program reflect this radical new theory? And, regardless of whether or not the proposal is true to its original theory, is the program likely to function effectively and efficiently as an urban redevelopment initiative? These are the subjects to which I now turn.

As you are aware, the proposed approach envisions a modest, experimental scale of operation, involving designation of seventy-five zones within a three year period. This scale allowed coverage of less than four percent of the approximately 2,000 locales eligible under the program's criteria, which restrict zones to areas of pervasive poverty, unemployment, and general economic distress. Such a limited effort may well be appropriate given the newness and untested nature of the approach. Nevertheless, because of its limited scale, it cannot be thought of at this time as a true "urban policy" in any sense substituting for more traditional federal programs because it provides no resources to deal with 96 percent of distressed locales. The estimated $400 million tax loss in first year costs for 25 zones simply cannot substitute for some $9 billion of federal expenditures per year. To assume that it could would be to assume a cost-effectiveness for those direct expenditures which is unrealistically low and one for those tax expenditures which is unrealistically high. As I will suggest in this statement, neither such assumption would match the facts.

In the administration's proposal, designation as a zone would trigger twenty years of eligibility for a package of federal tax incentives. The most dramatic of these is complete elimination of all taxation of capital gains. On top of that, an estimated seventy-five percent of corporate income taxation in the zone are to be eliminated through a variety of tax credits for investment and for wages paid. And employees' earnings within the zone are to be subject to a special five percent credit against their personal income tax liability. By the administration's estimates, these tax reductions would cost the federal treasury on the order of magnitude of $1,240 annually per employee in the zone.[11]

In the theory of enterprises zones, designation as a zone is also supposed to trigger deregulation. The administration's proposal is surprisingly meager on this score. Left intact are the minimum wage, equal employment opportunity, OSHA and environmental restrictions, and all other regulations mandated by federal law. Deregulation can therefore consist only of actions taken by states and localities, plus some possible federal deregulation from among more discretionary imposed regulations.

This particular version of deregulation—one exempting most prominent federal regulations—probably reflects a realistic assessment by the administration that any proposal attacking minimum wage laws, civil rights, or environmental and health laws would not be acceptable to the Congress. Similar political pressure is likely to apply at the state and local levels, severely restricting deregulation there as well. It is difficult to imagine a locality allowing lower health inspection standards for restaurants within a zone, for example, or looser standards for building construction. Most government regulations arose in response to real public concerns about the welfare of citizens, and once imposed became part of what citizens perceive as necessary protections. The first life-taking collapse of a below-standard building within a zone, or the first case of food poisoning in an uninspected restaurant, or the first case of consumer fraud perpetrated by an unsupervised business within a zone, and deregulation will prove impossible to pursue very far.

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[11] "The Administration's Enterprise Zone Proposal Fact Sheet." Washington, D.C.: Office of the White House Press Secretary, March 23, 1982, p. 4. This estimate is based on the administration's 1982 proposal. The figure for the proposal embodied in H.R. 1955 would be somewhat different but probably of the same order of magnitude.

Given that deregulation—either federal or state and local—is unlikely to be a major component of enterprise zones, the question becomes somewhat moot whether deregulation, were it to occur, would in fact contribute to business success. Nevertheless, the question is worth addressing because it allows us to examine a central tenet of the theory of enterprise zones. Empirical evidence seems to suggest that, however much the business community may rail rhetorically against "red tape" and government interference, the actual burdens of regulation are seldom crucial in business survival or prosperity.

Suggestive evidence may be garnered on this point from macroeconomic studies of the role of government regulation in explaining the slowdown in the nation's productivity growth in recent years. It has been estimated that at most 20 percent of the slowdown could be attributed to the costs imposed on businesses to comply with government regulations; and cost has been falling in recent years rather than rising.[12] If such ratios hold at the level of individual inner-city business firms as well as at the national aggregate level, then deregulation—even if pursued full force—could contribute only marginally to firms' success in most cases.

The voice of business itself seems to confirm that limited role for regulation in the real survival and growth problems of business. For example a recent survey conducted by the National Federation of Independent Business (NFIB) found that local inspection, the ease of obtaining licenses and permits, and local zoning were ranked near the bottom of a list of twenty-five problems faced by urban small business;[13] a survey of Cleveland area businessmen revealed that only 16 percent thought that building codes were a detriment to their expansion.[14] And a recent series of interviews which I myself conducted among business executives in four cities across the country found a high degree of indifference to most deregulation issues as major factors affecting their businesses.[15] Such evidence clearly suggests that an emphasis on regulatory relief would be misplaced in terms of effectively promoting inner city business growth or to promote new employment opportunities in the inner city.

THE TAX INCENTIVE ELEMENTS OF THE ADMINISTRATION'S PROPOSAL

Conclusions similar to those drawn about the administration's regulatory relief proposals can be drawn concerning the tax relief provisions as well: They are not particularly well designed to relieve the most serious constraints on inner city business survival and growth.

The most obvious shortcoming of the tax proposals, from the point of view of aiding firms on the margin of survival is that most of them are based on the corporate income tax and therefore are available only to incorporated businesses. The only exceptions are the proposed modest tax credits in the personal income tax for earnings of zone employees and the proposed elimination of taxation of capital gains. Unincorporated small businesses and nonprofit organizations are important sources of employment, both of which receive no assistance through incentives based on corporate income taxation. This failure is not a trivial matter. Sole proprietorships and partnerships account for more than 80 percent of the for-profit enterprises in the United States today.[16]

A second crucial shortcoming is that the proposed credits are nonrefundable in form. This means that firms which are not showing a profit in the current year cannot make use of them. New firms, small firms, and firms struggling to get established obviously need help most and are yet least likely to experience a profit. The proposal offers what appears to be a generous carry forward provision, so that credits could be claimed in future years. But the value of such future use is very modest indeed. It provides no help to firms in their early years, when cash flow is typically extremely tight; and the value of postponed benefits diminishes very rapidly over time.

Even for those firms able to take advantage of the tax benefits, however, the experience of past tax credit programs is that such incentives typically engender only very modest in business behavior, particularly with respect to hiring disadvantaged workers. The past records of the Targeted Jobs Tax Credit (TJTC), WIN Tax Credit, NABS–JOBS program, and others suggest that even fairly generous tax credits get utilized by very few firms. And when they are used, the credits are often largely claimed for hires which would have been made even in the absence of the credit. To the extent that the latter is the case, then most of the revenue loss to the federal treasury represents a windfall gain to firms with little new employment generated. To the extent that the former is the case, the revenue losses are small, but then no employment is generated. What could be more dramatic than the experience of the Youth Incentive Entitlement Pilot Project (YIEPP) of the Carter administration, in which fewer than one private firm is five was willing to hire a disadvantaged youth even with a 100 percent wage subsidy?[17]

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[12] See George C. Eads and Michael Fix, "Regulatory Policy," in John L. Palmer and Isabel V. Sawmill (editors), The Reagan Experiment. Washington, D.C.: The Urban Institute Press, 1981, p. 130.

[13] "Enterprise Zones—1982," Hearings Before the Committee on Finance, United States Senate, April 21, 1982. p. 212

[14] "Enterprise Zones—1982," op. cit., p. 433

[15] See Phyllis M. Levinson and Marc Bendick, Jr., "How's Business in the Reagan Era? The Perceived Impact of Federal Policies." Washington, D.C.: The Urban Institute, 1983, Chapter 3.

[16] "The State of Small Business, A Report of the President." Washington, D.C.: U.S. Government Printing Office, 1980, p. 33.

Finally, it should be noted that the type of business behavior which the tax breaks are most likely to induce is not the birth and growth of firms indigenous to the zones; on that score, the evidence is ambiguous indeed that a lower level of taxation would induce more entrepreneurial firm starts or survivals.[18] Indeed, to rely again on the NFIB survey cited earlier concerning the key problems which small businesses face in survival, taxes were near the bottom of the list of problems.[19]

Rather, to the extent that the incentives do increase the level of business activities within the zone, they are most likely to do so by inducing in-migration of firms—the very effect which the theory of enterprise zones criticizes in the prior urban revitalization programs. The reasons this might be true are straightforward. The major determinants of where firms locate are not taxes but rather considerations of business efficiency such as proximity to market or raw material. But within a metropolitan area, these major factors are largely equalized, so that in selecting among sites all within a few miles of each other, tax incentives can become very important indeed. While taxes may represent only a small proportion of total costs, they can be substantial relative to profits. For example, if a property tax differential of two percent of firms' sales is offered, in a typical manufacturing firm with profits of five percent of sales, then the offer amounts to a potential 40 percent increase in profit. Various empirical studies in New York, Philadelphia, and other cities have borne out this predicted willingness of firms to move locally in response to tax incentives.[20]

To some extent, of course, an important public purpose might be served by the relocation into enterprise zones of firms which would have existed but located elsewhere within the same metropolitan area. If the firms locate within the boundaries of the central city rather than in the surrounding suburban jurisdictions, then the often-weak tax base of the central city will be enhanced. And jobs may be somewhat more accessible to disadvantaged inner-city residents. But the magnitude of such benefits will almost certainly be modest. The firms most likely to move into the zone in response to tax incentives are those from whom all factors other than taxes are most similar before and after the move. That means that they are firms who are most likely to have located fairly near to the zone in any case, not far away in the suburbs. Because the gains in tax base and in job accessibility may be small, the ratio of tax loss to real benefits may be quite high. The extreme scenario—that of a firm relocating across the street because one block is part of an enterprise zone and the next block is not—is not completely unrealistic.

One further effect might also occur to further diminish the effects of tax incentives. The local real estate market is likely to react to any substantial inflow of firms into a zone by raising the price of real estate within the zone. This rise in price—a capitalization of the tax incentives into the value of the land—would tend to reduce the net value of the incentives to the firm locating in the zone. The owners of real estate within the zone would be better off than before the program, but neither firms nor local job seekers would be. Indeed, the rise in land prices might even have an effect on firms which is the exact opposite of the favorable one which is intended: Small, struggling firms might be forced to close or to move out of the zone because they could not afford the higher rents. If the tax breaks were generous enough to create substantial incentives and the supply of commercial and industrial sites within the zone small in relation to demand,[21] then a zone might experience a rather dramatic reshuffling of businesses—an in-migration of firms able to utilize the tax incentive (e.g., incorporated ones with substantial profits to shelter) and a forced outmigration of firms unable to utilize the benefits (e.g., unincorporated firms or firms showing no profits). This reshuffling might make it appear that a zone is a booming economic success, but the net gains in tax base or job opportunities might be close to zero.

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[17] See Richard McGahey, "Whatever Happened to Enterprise Zones?", New York Affairs 7 (1983) p. 52.

[18] For some of the evidence that current business tax burdens are not seriously detrimental to capital formation or business success, see Barry Bosworth, "Capital Formation, Technology, and Economic Policy." Washington, D.C.: Brookings Institution, August 1983; and Charles Hulten and James Robertson, "Effective Corporate Tax Rates: An Analysis of the 1981 and 1982 Tax Acts." Washington, D.C.: The Urban Institute, 1983.

[19] "Enterprise Zones—1982," op. cit. There is also evidence that the average effective tax rate on small businesses is lower than on larger ones; see Rosapepe Fuchs and Associates, "Review of Federal Business Tax Incentives and an Analysis by Business Size." Washington, D.C. Prepared for the Small Business Administration, 1980.

[20] See W. Warren McHone, "Supply-Side Considerations in the Location of Industry in Suburban Communities, Empirical Evidence from the Philadelphia SMSA" (unpublished, 1983); Ronald Greison, "The Effect of Business Taxation on the Location of Industry," Journal of Urban Economics (1977); and William Oakland, "Local Taxes and Intra-Urban Location: A Survey," in George F. Break (editor), Metropolitan Financing and Growth Management Policies. Madison, Wisconsin: University of Wisconsin Press, 1980.

Finally, questions need to be raised about the types of firms which would migrate into zones in response to tax incentives. Are they likely to be good generators of employment opportunities for local residents? Some would be, of course. But many might be less than ideal in this regard. For one thing, the experience of many localities utilizing local tax relief to attract firms is that such firms tend to move out of the area as soon as the tax relief expires.[22] For another, the heavy emphasis on capital gains exemptions in the administration's enterprise zone proposal would probably mean that many "paper firms" would tend to locate there—for example, firms consisting of a solo venture capitalist or commodity trader. In such cases, heavy revenue losses might be experienced by the federal treasury with very few jobs created within the zones.

WHAT KINDS OF FIRMS GENERATE JOBS IN THE INNER CITY?

The theme of my statement thus far has been that neither tax incentives nor deregulation seems to be a highly promising instrument for assisting firms to flourish in the inner city. Enterprise zone approaches to the revitalization of economically distressed inner city area, which build on these two instruments, are therefore open to serious question. What then should the federal government do to promote the growth of employment and economic activity in the inner city? What should be the agenda for a new generation of federal urban policy?

Heretical as it may be to say at hearings on a policy proposals associated with a philosophy of reduced government, the answer is that the federal government—and its state and local partners—should be engaged in efforts involving a strong, active government role in the sense of both public planning and explicit public expenditures. Furthermore, it must design these efforts to serve the needs of medium-size and large firms as well as the small firms which are so central to the enterprise zone approach.

Let me discuss the rationale for this latter point first. Earlier in this statement, I mentioned research by David Birch on which advocates of enterprise zones have relied to argue that small business is the source of most new job opportunities in the nation. In fact, however, subsequent work by other investigators has determined that Birch's findings are not correct. Researchers at the Brookings Institution, reanalyzing the data utilized in Birch's earlier studies, have concluded that in fact small businesses (in this case, defined as employing 100 or fewer employees) generate only about 40 percent of all job openings in the economy, a proportion corresponding quite closely to their proportion of all employment in the economy.[23] Small businesses are not some extraordinary, unique answer to problems of unemployment. Rather, they are just part—and a minority part at that—of a broad spectrum of firms of different sizes, all of which generate job opportunities. There is little basis for putting all one's eggs in the small business basket, in terms of generating a new employment base for distressed inner city areas.

The modest number of jobs which small businesses generate is only one reason to reach beyond them, however. For the jobs generated by small businesses often are of relatively poor quality, compared to the jobs offered at larger firms. They tend to offer lower wages, fewer fringe benefits, and fewer opportunities for skill training and for occupational advancement.[24] But, most importantly, small businesses experience a very high failure rate, and consequently, jobs in small businesses tend to be unstable and of short duration. Earlier in this statement, I quoted figures on a very high rate of failure of small businesses in the Kenwood-Hyde Park area of Chicago in the wake of a major federal urban renewal program. In fact, however, the failure rate in the urban renewal area was no higher than the failure rate in adjacent, nonrenewed areas.[25] For small businesses struggling to survive in the inner city, life is often nasty, brutish, and short; what critics of federal urban renewal thought they had observed as mass business destruction by federal action was in fact only the public face of that harsh fact.

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[21] The proportion of tax incentive benefits which would be capitalized into land prices would depend on many factors. Among them, however, one is directly related to a program design issue. The smaller the zone, the "scarcer" will be sites within the zone, and therefore the greater the tendency for land prices to rise.

[22] For the experience of Puerto Rico in this regard, see Eric Bond, "Tax Holidays and Industry Behavior," Review of Economics and Statistics (1981).

[23] See Catherine Armington and Marjorie Odle, "Small Business—How Many Jobs?" The Brookings Review (Winter 1982), pp. 14–17.

Some small businesses, of course, do survive and grow in distressed inner city areas. But that fact provides by far the strongest rationale for being concerned about the needs of medium-sized and larger firms as well as small businesses. For, if the inner city environment does not provide for the needs of these larger firms, then when small firms begin to prosper and to grow—at precisely the moment when their job generation potential is at its maximum—then they will move out of the inner city area which served as their incubator and seek room for expansion elsewhere. One of the most basic principles of local area economic development is that it is easier to retain an existing firm in an area than to find an in-migrant firm willing to replace it. A sensible strategy for local area economic redevelopment must therefore address the needs of small firms as they grow; and that means addressing the needs of firms of all sizes, small, medium, and large.

WHAT FORMS OF GOVERNMENT AID TO FIRMS ARE BEST?

This last statement brings us face to face with a very important question. Earlier, I argued that deregulation and tax incentives were not the most efficient or effective forms of assistance for government to provide to firms in distressed local areas. What then are the appropriate forms?

A considerable body of research has been gathered on the subject of what constraints businesses face in seeking to survive and to grow, what determines whether and where they choose to relocate, and what forms of government assistance are most valuable to them. The answers are quite different for small businesses—where the critical question is survival—and for medium-to-large firms, where the more critical question usually is one of where to locate.

For small businesses, the two key problems in firm survival are: [26]

Lack of access to financing at affordable interest rates; and

Lack of training and experience in running a business.

For larger firms, they key determinants of business location, particularly with respect to potentially locating in distressed inner city areas, are: [27]

The physical security of the plant site, including absence of threats to personnel, plant and equipment, and goods;

Adequate space to constrct a modern single-story plant and related storage and parking;

Access to transportation modes, particularly railroads and highways; and

Facilities within the site, including water and sewage hookups, local roads, and other infrastructure.

What form would government action take to address these business concerns? In the case of small business, loan subsidy, loan guarantee, and technical assistance/management training programs would directly address the problems being raised. Federal programs such as those administered by the Small Business Administration and Office of Minority Business Enterprise have been involved in such activities for many years. In the case of larger firms, what seems to be called for is land assembly, investment in infrastructure, and upgrading of inner city facilities and services—the use of public planning, the power of eminent domain, and public expenditures to create secure, modern, large-scale, nonresidential in-city industrial and office parks which can compete by offering the same sorts of security, space, and facilities found in suburban locations.[28] And for inner-city residents seeking employment, government-financed training to equip them with occupational skills in demand by private firms seems to be the most direct and cost-effective approach.[29]

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[24] For substantiation of these assertions, see Harvey A. Garn and Larry C. Ledebur, "The Role of Small Business Enterprise in Economic Development." Joint Economic Committee, U.S. Congress, 97th Congress, 1st Session, 1981.

[25] Berry, Parsons, and Platt, "The Impact of Urban Renewal," op. cit.

[26] See "The State of Small Business." op. cit.; and Michael Kieschnick, "Venture Capital and Urban Development." Washington, D.C: National Council of State Planning Agencies, 1979.

[27] See Roger W. Schmenner, "Making Business Location Decisions." Englewood Cliffs, New Jersey: Prentice Hall, 1982.

[28] See Marc Bendick, Jr. and David W. Rasmussen, "Enterprise Zones—a Land Banking Approach," in "Enterprise Zones—1982," op. cit., pp. 477-486.

Such government activism, of course, is not at all in the spirit of the administration's enterprise zone proposals, which eschew new public expenditures, decry public planning, and emphasize small enterprises nestled in close proximity to residential areas. Indeed, the mode of action is quite reminiscent of the thirty year tradition of federal programs for urban revitalization—from Urban Renwal through Model Cities to UDAG—which has preceded the enterprise zone proposals. That is no coincidence. For, however imperfectly they may sometimes have been implemented, those programs made—and make—sense in light of everything we know about how cities grow and how businesses work.

The most notable common element among these government-activism approaches to the renewal of distressed areas is that they operate primarily through explit expenditures rather than tax incentives. Such explicit expenditures tend to avoid many of the problems of tax relief proposals noted earlier in this statement. if they are targeted less strictly on a spatial basis than a zone designation—e.g., if they are targeted to minority or small business wherever located—then they typically avoid the problem of becoming capitalized into land prices. They tend to be accessible to firms of all sizes and financial conditions and accessible to those firms most in need rather than accessible only to incorporated, profitable firms. They tend to avoid the high ratios of cost to effects which plague tax incentive schemes because of their tendency to offer incentives to actions which would have been undertaken even in the absence of the incentive. They—particularly land improvements, infrastructure, and prepared sites—tend to be highly valued by firms, for technical reasons having to do with the extent to which certain kinds of firm expenditures are already eligible for federal income tax deductibility.[30] And, most importantly, they respond directly to the most pressing needs which firms themselves articulate.

In this package of ways in which the federal government can aid firms to survive, to grow, and to locate in economically distressed inner city areas, spatially-targeted federal corporate tax incentives do not play a central role. They might assist some firms when undertaken alone, or they might "sweeten the deal" if combined with government expenditure initiatives such as just discussed. However, even these uses should be weighed against a probably larger benefit which could be achieved through direct expenditures involving the same total cost to the federal treasury.

Mr. **Pease**. Thank you very much.

Next is Stuart Butler, director of domestic policy studies for the Heritage Foundation.

STATEMENT OF STUART M. BUTLER, DIRECTOR OF DOMESTIC POLICY STUDIES, THE HERITAGE FOUNDATION

Mr. **Butler**. Thank you very much, Mr. Chairman.

I have been speaking and writing on the idea of enterprise zones for some years now and have traveled extensively in this country, although a foreigner, including Detroit, the South Bronx, and other neighborhoods.

I must say that like many other people that will testify before you, and have testified before you, I would suggest certain changes with the legislation, particularly with respect to small business development. But I think I would emphasize that it is very important to appreciate that we are talking about an experiment and that it is critical that this get underway, so that instead of engaging in theoretical discussions, as we have had to do over the last several years, we can see something in practice, learn from it, and make amendments.

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[29] See Marc Bendick, Jr., "Employment, Training, and Economic Development," in "The Reagan Experiment," op. cit., pp. 258–261.

[30] See David W. Rasmussen, Marc Bendick, Jr., and Larry C. Ledebur, "Evaluating State Economic Development Incentives From a Firm's Perspective," Business Economics (May 1982), pp. 23–29.

We are fortunate, by default in a way, that this committee can now evaluate considerable evidence from State enterprise zone laws, and you will be hearing about that, too.

I would recommend to you the Sabre Foundation study mentioned before, which gives tangible figures, rather than theoretical models, about the way in which enterprise zones have worked. The evidence is very strong that they do create new jobs and that the level of relocation and other problems that have been mentioned are in fact minimal.

Bob Hawkins, chairman of the Advisory Commission on Intergovernmental Relations, in the introduction to that study, points out that the message is very clear that enterprise zones do work. So as we discuss the theory we must remember that the evidence is out there, and it is very clear.

In summarizing my testimony, I would like to concentrate entirely on one area, and that is the cost of the enterprise zones, and comment on the figures that have been presented to you by Treasury. It has been noted that Treasury has erred occasionally before, even under this administration. I would just like to address some of the assumptions behind those figures, because if one does, one soon recognizes that the estimates are likely to be very much on the high side, rather than on the low side. I wouldn't necessarily say that the enterprise zone is likely to be a moneymaking venture for the Federal Government, but I do think the cost is likely to be significantly less than is generally assumed.

First of all, the Treasury study assumes that all jobs created in the enterprise zone would have been created somewhere else. In other words, that there was absolutely no net new activity as a result of these incentives.

I draw to your attention the fact the same Treasury has been pointing out to people that tax incentives nationally have created new jobs. The recovery and other evidence supports that. So tax incentives work across the country, according to the Treasury, but not in enterprise zones.

It is important also to note that the Treasury study assumes that half of all business formation and job creation in enterprise zones would come from relocation, and other witnesses before you have emphasized this would be a major element of the enterprise zones. But the evidence is strongly against this view.

We see evidence of location decisions made by business which show tax incentives are well down the list in considerations. We see evidence from studies, such as that by David Birch at MIT, looking at neighborhoods within cities, to show that in areas growing rapidly the volume of new jobs from relocations is about one-tenth to one-eighth of the new jobs. Yet Treasury assumes the figures are closer to 50 percent, the AFL–CIO, as I understand, suggested almost 100 percent. The evidence, in other words, is contrary to the assumptions behind the Treasury analysis in their reservations regarding enterprise zones.

The study also assumes that all businesses, including existing businesses, would be able to partake of the tax credits available and that this would be a major segment of the loss that they estimate.

Of course, in these inner city areas, many businesses are marginal or at least paying little or no taxes; and also new businesses, in general, tend to pay very little or no corporate income taxes. So the likelihood of all businesses being able to use these credits to the full is very, very small. This factor would reduce the costs involved.

The size of the zones is another unreasonable assumption. I know the Treasury revised this down slightly, but their study was based on the assumption that there be 8,000 existing employees in enterprise zones. Now, the location requirements in the legislation before you call for a minimum populations of 4,000 in large urban areas and only 1,000 in smaller urban areas. So the zones would have to be many, many times the size envisioned in the legislation for the Treasury's loss figures to be correct.

Finally, I would draw to your attention to the fact that the Treasury analysis on the cost of the zones neglects totally all savings to the Federal Government in outlays or new tax revenues that come in. All that is looked at in the immediate losses on business taxes.

Yet we would have within the zones new employees paying social security taxes, businesses paying social security taxes, and new income taxes generated even from the very low-income people. We would have enormous reductions in outlays, particularly with respect to welfare programs and unemployment payments.

If you begin to analyze these, you begin to see significant revenue flows coming into the Treasury. So I think it is very important to note in analyzing the costs of this program that we have seen very much the worst case situation being presented by the Treasury figures, even though they are supporting the enterprise zone measure.

If we take a more realistic view of the job creation in the cities and types of the businesses likely to be formed and revenue flows that are likely to occur, we must conclude that there would be only a minimal, if any, effect on the net flows of revenues from the Treasury.

Thank you.

[The following was submitted for the record:]

[From Issue Bulletin, The Heritage Foundation]

ENTERPRISE ZONES: TIME TO ACT

(By Stuart M. Butler, Ph.D., Director of Domestic Policy Studies)

INTRODUCTION

This week's House Ways and Means Committee hearing on enterprise zone legislation marks a long-overdue step toward revitalizing economically decayed urban areas. The hearings are a vital step in establishing federal enterprise zones in the United States. The committee action fulfills a pledge by Chairman Dan Rostenkowski (D-IL), and follows the lead of 19 states that already have enacted similar legislation.

The House committee has been the principal roadblock in the progress of federal enterprise zones legislation. The Senate, for example, passed such legislation earlier this year. But House inaction does not reflect House disinterest. Far from it. The first bill embodying the enterprise zone concept was introduced in the House three years ago by Representatives Jack Kemp (R-NY) and Robert Garcia (D-NY). A new version (H.R. 1955, S. 863) is backed by the Reagan Administration, the original sponsors, and at least 214 House cosponsors from both parties.

This broad support is encouraged by the experience of the states: enterprise zones work and would work far better with federal incentives. Although the first state zones were created only in fall 1982, a survey by the Washington-based Sabre Foundation has discovered strong enthusiasm for enterprise zones within the designated areas, with more than 17,000 jobs created or planned in nine states, and $450 million in new investment.

Some Ways and Means Committee members voice concerns about the cost of the proposed program. They cite Treasury studies putting the loss at $1 billion by 1988 for the proposed 75 zones. Many of the assumptions of this analysis, however, barely resemble the conditions within likely zone sites. The calculations ignore all probable new revenues and welfare outlay reductions resulting from the zones. Consequently, the projected costs are surely exaggerations.

Inertia in the House has been the result mainly of politics. Yet enterprise zones are not a purely White House initiative. It has strong bipartisan support and state versions have been enacted in strongly Democratic legislatures and cities. The concept has the widest endorsement of any urban initiative in years. It is time for the House to move the legislation forward.

THE STATES MOVE AHEAD

Nineteen states have enacted enterprise zone legislation, and a number of others, including New York, Michigan, and California, have legislation pending. Eleven have designated zones. Most of these states have established a limited number on a competitive basis, such as Connecticut (6), Illinois (8) and Maryland (6). Zones are now operational in such cities as Chicago, Baltimore and Hartford.

Since the first zones were established only last year, firm data are not yet available. Nevertheless, the initial indications are the enterprise zones work as planned. In particular, local development officials credit the state zones with halting business flight from certain highly distressed neighborhoods and providing the catalyst for new investment.[1] On a visit to the South Norwalk zone in Connecticut, Washington Post urban affairs writer Howard Kurtz noted that the zone incentives "have been remarkably successful in keeping more than a dozen existing firms from leaving town." [2] Chicago has enjoyed similar results. According to Patrick O'Grady of the Illinois Department of Commerce and Community Affairs, the Spiegel Corporation listed a zone designation in Chicago as one of the three reasons it decided to launch a $20 million renovation of its catalog sales facility in the neighborhood. Had it moved out of the area, as it was contemplating, almost 2,000 jobs would have been lost.[3]

The Sabre Foundation's state-by-state survey of the operational zones sought to identify jobs already created within the zones and jobs that had been "saved"—that is, cases where firms had planned to move or close but rescinded the decision after the zone was established. The survey discovered well over 7,000 jobs already created or saved by the enterprise zones now in existence, plus another 8,500 planned by zone companies. In addition, the state incentives were found to have been instrumental in securing commitments for $450 million in new construction, expansions, and renovations. Observes Robert Hawkins, Jr., chairman of the Advisory Commission on Intergovernmental Relations (ACIR) in the introduction to the survey results:

"The message of the data is clear: enterprise zones are delivering results.* * * Enterprise zones in several of the states have been notably effective in reversing the decline of areas that until recently have been losing jobs by the thousands.* * * Capital has flowed into such projects as manufacturing facilities, retail stores, office buildings and home construction and remodeling, much of it in neighborhoods once believed too decayed to recover."

The authors concede, of course, that some of the jobs would have been created without the zones. But they also point out that the enterprise zones are in depressed areas, where the normal birthrate of new firms is very low.[4]

The House of Representatives should note these figures carefully. They promise new jobs in some of the nation's most decayed areas. But while the states have taken the lead, there are limitations on the incentives they can provide. The enterprise zone concept requires a federal-state partnership. The states, in cooperation with cities and neighborhoods, design incentives compatible with the neighborhood, coordinate existing development programs, and experiment with innovative ideas. The federal government would not become involved directly in this development process, but would provide a package of tax incentives designed to establish a climate conducive to local initiative. The concept, in short, is in the spirit of the federal system: the federal government establishes the best environment for local development strategies, but does not coerce or determine those strategies.

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[1] USA Today, October 20, 1983.

[2] Washington Post, November 6, 1983.

[3] Enterprise Zone News, vol. 2, No. 2 (Washington, D.C.: Sabre Foundation).

[4] Gerald Bonnetto and Dick Cowden, "Enteprise Zone Activity in the States," (Washington, D.C.: Sabre Foundation).

So far only half of this partnership is in place. Cities and states have shown that they will take the lead, and they have designed successful zones. Still needed are the powerful investment and labor incentives in the federal legislation.

FISCAL IMPACT

The experience of the state zones strongly suggests that the fiscal impact analysis carried out by the U.S. Treasury is based on faculty assumptions leading to unwarranted, pessimistic conclusions.[5] Its authors have an unusual view of the nature of economic development in distressed urban areas. Examples:

1. New firms against relocations

Treasury assumption.—The Treasury analysis assumes that federal enterprise zone incentives will achieve a net expansion in employment of 10 percent each year. Of this, Treasury predicts that half would be due to relocations and half to new firms or expansions. Moreover, the analysis assumes "all activity generated by the programs would have existed somewhere else in its absence (i.e., the newly started or expanded firms, as well as those that have relocated, would have done business elsewhere had they not been diverted by enterprise zone incentives)." In other words, the Treasury assumes that the zone program will not create a single new job, but merely divert jobs to the inner cities. Hence all credits and incentives constitute a net revenue loss.

Reality.—The Treasury assumes that zone tax incentives will not lead to net new activity—yet the same Treasury maintains that the Reagan tax incentives are generating new activity throughout the country (and the data support this). As elsewhere, incentives in the zones will create net new activity and this will mean new flows of income taxes, Social Security taxes, and corporate income taxes.

Relocation into the zone is likely to be more modest than Treasury assumes. Studies of firm location decisions show that companies put tax incentives well down the list of factors in choosing a site. Crime in the area, access to necessary labor skills, and similar factors are far more important—particularly for larger firms.[6] Companies simply do not pull up their roots and move to places like the South Bronx in order to obtain a few tax benefits.

The seminal work on urban job generation by David Birch also suggests that relocation will be low in the enterprise zones. Breaking down urban job creation by type of neighborhood, Birch showed that heavily minority central neighborhoods in declining cities (typical sites for enterprise zones) generally gain new jobs equal to about 7.7 percent of the existing jobs—although this is more than offset by losses of 9.6 percent. Almost two-thirds of new jobs come from startups. Only one-tenth are due to firms moving into the neighborhood from other parts of the city or from outside the metropolitan area. For this level to reach one-half by virtue of enterprise zone status, as the Treasury assumes, there would have to be a dramatic change in the normal job generation pattern. This is unlikely. Even in rapidly growing cities such as Houston, Birch shows, firms moving into the neighborhood are responsible for only one-eight of the new jobs.[7]

The Sabre Foundation survey also suggests that the Treasury has overestimated revenue losing relocations. "Almost none of the companies operating in the enterprise zones represent relocations," concludes the survey, "Major growth has come about from expansion of existing and from startups that otherwise appeared unlikely to occur." The survey notes that many city officials believe now that a signfiicant proportion of the new projects neither would not have occurred anywhere, were it not for the zones, or they would have taken place on a substantially reduced scale.

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[5] Clifford Kern and Philip Spilberg, "Enterprise Zone Incentive: Their Value to Firms and Their Cost to the Federal Government" (Unpublished paper, U.S. Department of the Treasury, Washington, D.C., 1982). The Treasury figures are based on the Kern-Spilberg model.

[6] See, for instance, Roger Schmenner, "The Manufacturing Location Decision" (Cambridge, Mass.: MIT Study, 1978); National Federation of Independent Business, "NFIB Report on Small Business in America's Cities" (Washington, D.C.: NFIB, 1981).

[7] David Birch, "Job Generation in Cities" (Cambridge, Mass.: MIT Program on Neighborhood and Regional Change, 1980), pp. 16–17.

Utilization of tax credits

Treasury assumption.—The Treasury's fiscal impact analysis assumes that all existing firms in an enterprise zone, and all new firms, will be able to utilize the tax credits available in the legislation for hiring workers and investing in the zones. In the case of existing firms, in particular, this allows Treasury to reduce heavy revenue losses—even if there is only modest job generation.

Reality.—This assumption is seriously flawed. Companies can only utilize the available tax credits if they have income tax liability against which to offset them. In depressed neighborhoods, many struggling firms have little or no tax liability, so the revenue loss on existing firms is likely to be much lower than the Treasury forecast.

Revenue loss due to startups also is likely to be lower than the Treasury calculates. The Sabre Foundation survey attributes nearly half of the zone activity to startups (in line with Birch's analysis of typical activity). But young firms, especially independent small businesses, generally have very low or zero income tax liability in their early years. So a significant proportion of the new firms in enterprise zones will not be able to use all the credits available to them. This will reduce the revenue loss.

3. Size of typical zone

Treasury assumption.—The Treasury bases its $1 billion price tag for 75 zones on what is described as a typical zone of 5 square miles, with 8,000 existing employees.

Reality.—The Treasury's "typical" zone is probably much larger than the federal government would actually designate. The legislation calls for a minimum population (not workforce) of 4,000 in large cities and only 1,000 in rural areas. The pending legislation sets aside one-third of all designations for small towns and rural areas. The size of the zones would have to be many times the minimum specifications to reach the Treasury's "typical" level of employment. The Department of Housing and Urban Development, which would be choosing zone sites, has made it clear that it envisions areas much smaller than the Treasury assumes.

4. Budget savings and new revenues

Treasury assumption.—In addition to its assumption that there will be no offsetting tax revenues generated by new firms and employees in the zones, the Treasury assumes no budget reductions due to savings on welfare and other costs effected by new zone employment.

Reality.—The Treasury defends this unrealistic position by arguing that: (a) since it assumes no new net activity will result, no new revenues will be generated; and (b) the study was not designed to analyze savings to the government.

These caveats may well have made the analyst's job easier, but they demonstrate the fundamental deficiencies of such cost estimates. To take a hypothetical example, if an unemployed man were to find a job in an enterprise zone, generate $1,000 in new corporate and personal income taxes, relieve the welfare rolls of $5,000 in outlays, and help his firm qualify for $3,000 in tax credits, the Treasury would put the cost of the job at $3,000. Budget reductions and new tax revenues amounting to $6,000 would be ignored.

The offsetting outlay reductions and new revenues are likely to be significant even though trying to estimate them would require the kind of controversial assumptions characterizing the Treasury analysis. But an approximate calculation based on the Treasury's "typical" zone indicates the range of savings and revenues that are being ignored.

If a zone has an employment base of 8,000 and, as the Treasury surmises, experiences a 10 percent annual net job growth, that would mean 800 new jobs each year. Assume all these jobs are net additions to the nation's employment level, and that all the new hires were structurally unemployed disadvantaged heads of two-parent households with one dependent child. Assume also that the workers are paid $5 per hour, or $10,000 a year.

In the state of Connecticut (which has designated 6 zones) this would imply a saving to the federal government of approximately $6,000 per year in Medicaid outlays, food stamps, and AFDC payments (available to two-parent families in Connecticut). At an income of $10,000, the employee would pay approximately $450 in federal income taxes and $650 in his share of Social Security taxes. If these savings and revenues were to be achieved for each of 800 new workers in 75 zones, the $1 billion annual "cost" to the Treasury of the enterprise zone program would be offset by $360 million in budget savings and $70 million in additional personal income tax. And this ignores additional corporate income tax and employer Social Security payments.

Clearly the above calculation takes an unrealistic best-case scenario, and so overestimates the positive impacts of the enterprise zone. But then, the Treasury analysis adopts an unrealistic worst-case. The accurate balance would no doubt be somewhere between the polar positions.

CONCLUSION

The enterprise zone initiative is a bold, bipartisan attempt to use state and federal incentives to spur economic development in the nation's most distressed communities. If Congress is looking for a program that guarantees results at a firm price tag, the enterprise zone is not that program. It is an experiment and should be seen as such. But the state data available suggest that it would pay off handsomely in new jobs for the hardcore unemployed. And the faulty assumptions of the Treasury's cost analysis point to a much lower revenue loss than some congressmen have feared. Good reasons for the House to move quickly and enact this long-overdue legislation.

Mr. ANTHONY [presiding]. Thank you very much, Mr. Butler.

Do you have inquiries, Mr. Duncan?

Mr. DUNCAN. Yes. I want to thank the panel.

Mr. Cantor, I take it that you don't think anything needs to be done in these other programs we have been trying over the last 30 years for the depressed areas of the major cities?

Mr. CANTOR. I don't think the question should be framed that way. I don't think this legislation, which is predominantly a tax incentive/tax reduction bill, will be an adequate substitute or complement to what really is needed to rebuild our urban and rural areas, sir.

Mr. DUNCAN. We have been putting a great deal of money into these areas over the last several years, and it seems to get worse as time goes on.

I just wondered if you have some alternate suggestion?

Mr. CANTOR. Sir, as I have seen the numbers, that really is, I don't believe, accurate. I think if we added up all what many would derogatorily call the Great Society programs and urban programs, I don't think we ever spent over $8, $9 or $10 billion a year on this whole need to rebuild our cities, renew our infrastructure, train people, and so on. I don't think that $8 to $10 billion viewed that way is a lot of money.

Mr. DUNCAN. I think the record will show we put a great deal more than that in these areas of our metropolitan cities.

May I ask you, many states have been experimenting with various enterprise zone packages. Has the AFL-CIO developed any figures on how job displacement occurs as a result of the state programs?

Mr. CANTOR. The fundamental basis of our objection, sir, is that—well, let's take one of the paradigms of success as Norwalk, Conn. Now, I really can't answer the question, sir, of how much of the increase of jobs in Norwalk, Conn., came out of the firms that may have otherwise gone into Congressman Garcia's South Bronx or somewhere else. I don't think it lends itself to analysis.

Mr. DUNCAN. You mean you are not interested in seeing how they are actually working?

Mr. CANTOR. No, sir. Reason and judgment tells me that incentives like this bill don't work. The tax incentives that we have had experiences with have not worked. And, at the same time, Congress now is trying to recoup revenue from a hemorrhaging of tax incentives over the last couple years.

Mr. **Duncan**. Would you care to tell us some of the locations where experiments of this nature have not worked?

Mr. **Cantor**. No, sir, because I don't know what success is in a question like this. I don't know where the jobs would have been otherwise.

Mr. **Duncan**. I think we are all interested in the same thing you are. But you do mention that several have not worked, and since you mentioned that I think——

Mr. **Cantor**. No, no, no. I don't think I have said that, sir. Excuse me.

Mr. **Duncan**. That was my understanding.

Mr. **Cantor**. Sorry if I did it.

Mr. **Duncan**. I thought you said if these programs didn't work, you would have a suggestion or two.

Mr. **Cantor**. What I have read, in fact, is many, many examples where there have been jobs created.

If I might respond a little more to that, what I found in looking actually at those areas and seeing some of the testimony, one of the things that does come clear in the State experiments is that it is a confluence of many, many factors. It is a combining of business, labor and government. It is an infrastructure. It is zoning. It is land use. And as I read most of the statements, sir, any tax incentives, if you will, that have been added have been a rather minor part of the picture.

Mr. **Duncan**. Does the AFL-CIO at this time encourage training programs in the schools? I know, in fact, at one time when I practiced law, I represented some labor unions—it is a long time ago—but for a while you didn't recommend training programs because some of your components, especially construction trades, interfered with their apprentice program.

Does AFL-CIO now recommend training?

Mr. **Cantor**. It is my understanding we supported every effort to support vocational education that came along.

Mr. **Butler**. If I may add, Mr. Chairman, the experience indicates there have been 17,000 jobs created with $450 million in investment.

It doesn't matter if they are theoretically correct, because they are doing it. Judgment that says it can't happen ignores the clear evidence we have in the field.

Mr. **Duncan**. Thank you.

Mr. **Anthony**. Mr. Schulze.

Mr. **Schulze**. Thank you, Mr. Chairman.

Mr. Levine, you referred to a measure of unemployment. I share your concern. I wonder if you would expand on that a little bit. I am afraid that might not be the most accurate type of a measure that we could use.

Mr. **Levine**. As with all the decennial census measures, there are problems arising from the fact that the further we get away from the time and data collected, the less accurate they are as a representation of the then current conditions.

I think unemployment rates probably are particularly susceptible to that difficulty. Clearly, it is a cyclical phenomenon. Probably especially in recent years the nature of the cyclicality varies from area to area. So, while unemployment conditions since the 1980 census first worsened and then more recently improved, it is not clear that today—or 2 or 3 years from now, when some of the enterprise zones will be selected—that the pattern of unemployment reported in 1980 would be accurate as a picture of what it would be now or later.

One way to partially compensate would be to set an exceptionally high level of unemployment as measured by the 1980 census on the assumption that even if the pattern changed somewhat, areas with very high 1980 unemployment rates are likely to be among the more depressed areas some years later.

Mr. **SCHULZE**. Do you think perhaps the poverty rate or black youth unemployment or some other standard might be more accurate, maybe a better criterion to use?

Mr. **LEVINE**. Well, they measure different things. The poverty rate is probably among the better of the income measures available from the decennial census. It is one standard that the government has established that varies with household size, for example.

There are a lot of criticisms on the poverty rate because it is based on the cost of food as measured a couple of decades ago and adjusted forward by the CPI. The poverty level is three times the thrifty food plan, and so on. One attraction is its adjustment for family size.

As to the notion of using unemployment rates among youth or minority groups—unfortunately, those figures are not reported in the decennial census at the census-tract levels.

A partial solution to those problems would be to allow localities in submitting applications to supplement census data with their own surveys, if they can show they are representative. I think the dilemma in the whole question of eligibility standards is that on the one hand the decennial census is the only uniform national standard; on the other hand, these are limitations in terms of individual items. Also, there are some kinds of things those items can't get at—the physical condition of the area, for example.

In some degree the bills recognize that by, for the most part, allowing localities to submit additional information about the nature of the zones.

Mr. **SCHULZE**. Perhaps we could put that in report language rather than as part of the bill itself. But that information would be helpful in making such a determination.

Mr. **LEVINE**. I think that any amount of additional information that the selecting agency had, would be of assistance. The other side of that—CBO always has another side—is that if you have city-by-city data submitted, of necessity it won't always be comparable and some judgment will have to be made by the Federal agency. That is inevitable.

With respect to whether a requirement should be in report language or legislative language, that is clearly not within our purview.

Mr. **SCHULZE**. Mr. Cantor, I don't want to debate with you really, but is part of AFL–CIO's concern that union membership is dropping and perhaps in these areas you would end up with fewer union members than you might otherwise? I would hope not, because I think especially in areas of the North, I don't think this would have an impact. I think you will end up with perhaps more union members if we can create more employment than you would otherwise.

Mr. CANTOR. Well, Congressman, I did most of the research and work in this area and dealt with my principals when we discussed the issue, and I never heard that thought even mentioned.

Mr. SCHULZE. So it was not a factor?

Mr. CANTOR. But I should mention, as I pointed out in the testimony, though, we are concerned about one very specific in the administration's bill, which we read as an open invitation to contracting out of jobs that are traditionally performed by public employees. So I would certainly raise that question in that sense, and I have.

Mr. SCHULZE. I am sorry I missed part of the testimony of the panel, but you are firmly convinced that this will not create new jobs; all this would do is move jobs from one place to another?

Mr. CANTOR. Yes, sir, I am.

I would also argue that in the transfer, some jobs might even be lost. We know the example of New York City where a good many of the jobs of the residents who live in The Bronx are working in the Garment district on Seventh Avenue in Manhattan. If firms would pick up from Seventh Avenue and move, it wouldn't surprise me if they created less jobs in The Bronx than they have at Seventh Avenue. I think there is that potential, too.

Mr. SCHULZE. Mr. Cantor, when I go to Hong Kong or to Singapore and I look at what has happened over the past decade or so, there are jobs being created there which we could create here and I am not convinced that salary alone is the total attraction there. Some of the atmosphere is responsible. I do not know that we can match that, but if we can create an atmosphere which would be as attractive, I think we could have a boom in employment. As you say, it is an experiment and I do not know whether we can do that, but gosh, I would think that it would be to your advantage to be supportive of this.

Mr. CANTOR. But our point is this bill creates a working atmosphere that says the Government should do less, whatever government you are talking about, should tax less and regulate less. What we are suggesting is that the appropriate atmosphere is to recognize the need for training, for infrastructure, for streetlights, for housing, for a whole panoply of programs that are necessary—even including tax incentives. But, not exclusively tax incentives.

Mr. SCHULZE. My time has expired. I thank you.

Mr. ANTHONY. We will recess long enough for us to vote.

Do you have any further questions of this panel, Mr. Schulze?

Mr. SCHULZE. No.

Mr. ANTHONY. I have no questions for this panel; so our thanks to you.

If the next panel would please assemble, we will be back shortly.

[Recess.]

Mr. ANTHONY. The committee will resume sitting.

On our next panel we have the Honorable John M. Mutz, Lieutenant Governor, State of Indiana. The National League of Cities, represented by the Honorable George V. Voinovich. The city of St. Louis, Mo., the Honorable Vincent C. Schoemehl. I understand the mayor of St. Louis had to leave to catch a flight. His testimony will be accepted for the record, and our thanks to him as well as our apologies for not being able to accommodate him in person. The National Conference of Black Mayors, the Honorable John H. Smith, mayor of Prichard, Ala. U.S. Conference of Mayors, the Honorable William Althaus, mayor of York, Pa.

Mr. SCHULZE. Mr. Chairman, if I may, our colleague from Pennsylvania, Mr. Goodling, has asked me to welcome Mayor Althaus from York. It is a pleasure to have you. He asked me to report on your testmony, which I am sure will be eloquent.

Mr. ALTHAUS. Thank you, Congressman.

Mr. ANTHONY. With that we will have the Honorable John M. Mutz, Lieutenant Governor.

STATEMENT OF HON. JOHN M. MUTZ, LIEUTENANT GOVERNOR, STATE OF INDIANA

Mr. MUTZ. Thank you. I think it is appropriate that as the Lieutenant Governor of Indiana that I establish the reason that I am here today, because in Indiana, the Lieutenant Governor by law——

Mr. ANTHONY. Would you yield for a moment?

Mr. MUTZ. Yes.

Mr. ANTHONY. I noticed that our good friend and colleague, Mr. Andy Jacobs, just walked in, and in case he may have a statement for the record, I recognize him at this time.

Mr. JACOBS. I want to welcome Governor Mutz, but I will go further and welcome all the panelists. I am glad you are here.

Mr. ANTHONY. Please proceed.

Mr. MUTZ. Making a brief statement, I do not intend to read the entire statement, and ask that you include it in the record.

Mr. ANTHONY. Without objection.

Mr. MUTZ. In Indiana the Lieutenant Governor serves as the director of the department of commerce, the chief government official, and as the commissioner of agriculture, and as a result I had the major responsibility for implementing an enterprise zone piece of legislation passed by the Indiana General Assembly which became effective in April of 1983.

In Indiana we are in the process of implementing the bill at this time. We have authorized six enterprise zones. The Indiana legislation provides not only certain kinds of assistance concerning taxes but also some possibility of altering the rules and regulations where they do not violate any other laws, and some special considerations for the funding of new business ventures, that is seed capital and venture capital of one kind or another.

At the present time we have been in the process of negotiating between the department of commerce and local communities the specific mix of incentives. There were nine incentives included in Indiana law, and each of these will be in essence a negotiated mix. Ultimately we will have to pick 6 of 13 final applications which have been submitted from communities around the State.

I can report to the committee at this time that in virtually every one of these applications there will be specific commitments on the part of private sector investors for job creation. The total amount of jobs is impossible for me to predict or to give you at this time, and the total amount of new investment in the form of equipment and buildings and leasehold improvements, but in virtually every case the designation as a State enterprise zone will trigger certain private sector investments.

As an individual who has been looking at this kind of proposal for a number of years, I guess it is my feeling that what we are really talking about here is a way of making up the deficit, the financial deficit in part, but other deficits as well, that exist in certain kinds of inner city and rural areas in the State of Indiana. I am not suggesting that enterprise zone concepts apply to every one of our problem areas, but I am convinced that it will work in a variety of areas within our State.

The addition of the contents of almost any of the three Federal acts that you are looking at in this committee hearing would add substantially to the program as already considered by the State of Indiana.

As we look at your bills I wanted to mention to you that there are four things that are concerns of mine.

The first one is the priority for infrastructure assistance. I am not in a position to present detailed ideas on each of these, but some sort of priority for community block grant or urban development action grants and the like would be a great deal of help in the process.

The second is access to capital. In this regard those things that would make it easier for us to get SBIC involvement in the zones would be of help.

The third is access to training or specific job opportunities. This is of extreme importance, because the Job Act is inadequate in meeting those requirements, particularly in the area of upgrading individuals who currently have jobs possibly at the lower end of the spectrum.

The fourth priority is the importance of this interaction between the various elements, and I think the success of the enterprise zones will depend on the management of the zone. We put that in the hands of the association which contains representatives from entities, businesses in the zone, residents in the zone, and the local governmental unit with jurisdiction of that zone. The real key to management and success over a long period of time will be interaction between those three. I support the concept and hope that you will act positively on one of the pieces of legislation currently before you.

[The prepared statement follows:]

STATEMENT OF HON. JOHN M. MUTZ, LIEUTENANT GOVERNOR OF INDIANA

After a two year study the 1983 Indiana General Assembly passed legislation allowing for the creation of six enterprise zones to aid in the revitalization of Indiana's urban areas. The outcome of the study is a program we feel to be unique and one of the strongest in the nation. The basis for Indiana's enterprise zone statute is a comprehensive approach to the alleviation of problems causing urban distress.

The enterprise zone concept is rooted in the belief that the real solution to the problems of the nation's urban areas is the creation of a favorable climate for private sector investment which will expand the economic opportunities for residents of those zones. Thus the primary emphasis of any enterprise zone proposal and the key stone of Indiana's program are tax incentives. Targeting tax revenues to offset the risk to investment in distressed areas can be an effective method to redirect development activity. However, the value of tax incentives in enhancing the investment climate can be mitigated by several factors. It is these factors that we urge this committee to consider as it debates the appropriate approach to enterprise zones.

In the first instance, enhancement of existing business and attraction of new development may be limited by the quality and capacity of a community's infrastructure. It is imperative to provide the basic services necessary to support commercial enterprise. Programs which include such provisions as were provided in the Federal Emergency Jobs Bill directly link job creation with the infrastructure improvements necessary to support development.

Secondly, Northeastern and Midwestern distressed economics are especially dependent on small and medium sized firms for creation of new jobs. Tax incentives will be helpful if we intend to encourage the formation of small and medium size firms but it is more important to include tools which affect access to capital. To this end, Indiana has established the Corporation for Innovation Development which invests in newly established SBIC's through a mechanism of tax credits. The Corporation makes direct investments in new businesses which are just beginning production and marketing activities. In addition, specifically in enterprise zones, Indiana's Industrial Development Loan Fund will loan money to CID and SBIC's for enterprise zone firm investments.

We encourage the inclusion of specific federal program efforts in Enterprise Zone legislation to meet the venture capital needs of Enterprise Zone entrepreneurs. Ideas such as providing preferential SBIC leveraging with SBA funds or preferential interest rates for capital could provide the necessary funds to begin business in a distressed area.

Third, development efforts may be limited by past dependence on the auto industry and other hard goods manufacturing. Much of the labor force may be unprepared to fill those jobs an enterprise zone program is likely to create. Job specific training and retraining for displaced workers and basic skill development are essential to the success of this program. Indiana provides the Industrial Training Program to assist new and expanding industry in hiring from the local labor force.

Fourth, the success of enterprise zones requires a true partnership between all levels of government and the private sector. The factors which limit development in one community are not the same as those which inhibit development efforts in another. Thus, the corresponding tools which aid in development in one community may not meet the needs of another. We encourage you to consider zone designation in a spirit of compromise and negotiation, in which each of the parties brings to the table its best contribution to structuring a successful zone.

Clearly the time has come to search for private sector solutions to our nation's problems. Experience indicates development cannot be artifically imposed upon a community. Long term self sustaining growth can only occur if the participants have a stake in their development. The Enterprise Zone can be a vehicle for change if the roles of business, industry, neighborhood and voluntary organizations are clearly stressed as interdependent.

The Indiana Enterprise Zone program provides for this interdependence through a tripartite managerial structure for the zone involving government, business and zone residents on equal terms. The UEA[1] not only acts as a catalyst for zone development but provides a mechanism to solicit and coordinate zone sponsorship and participation by business and residents.

We appreciate this opportunity to discuss this important new approach to urban revitalization. We hope that the enterprise zone will become a model for a new federal, state and local partnership to aid in the solution of our most serious national problems.

Mr. ANTHONY. Mayor Voinovich?

STATEMENT OF HON. GEORGE V. VOINOVICH, MAYOR, CLEVELAND, OHIO, AND SECOND VICE PRESIDENT, NATIONAL LEAGUE OF CITIES

Mr. VOINOVICH. I am George Voinovich, mayor of the city of Cleveland and second vice president of the National League of Cities, representing over 15,000 municipalities and about 1,100 direct member cities.

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[1] UEA—Urban Enterprise Association.

I am grateful to this committee for having a hearing on this piece of legislation.

Congressman Rangel, I am delighted that we are here today and appreciate your efforts in getting us here. The National League of Cities has been promoting enterprise zones since 1980.

The city that I represent, the city of Cleveland, has been actively involved since January 1981 in preparing to submit an application for enterprise zone legislation.

You have a written copy of the statement of the National League of Cities, and I assume it is part of the record. I would like to enter into the record also a summary of what we call in Cleveland the target area investment program.

This is our almost 2.5-year effort to prepare for the passage of Federal enterprise zone legislation, and it might be very interesting to the committee, because the Urban Land Institute came to Cleveland and reviewed this to determine whether it is realistic or not, and also to advise us on some of the improvements they thought we needed to make.

Mr. ANTHONY. Without objection, it will be made part of your testimony.

Mr. VOINOVICH. In spite of many Federal programs, there are still vast areas of wasteland that have resisted economic development.

The purpose of the enterprise zone legislation is to ascertain, I underline ascertain—it is an experimental program—whether or not adding additional targeted Federal incentives and requiring State and local and private participation can stimulate group and employment in areas of poverty and high unemployment.

I want to underscore the fact that we do have many programs today in place. They are all very, very important programs, they are necessary, but even though we have had those programs, we still have not seen economic development occur in many areas throughout the United States.

This proposal is innovative because it brings to the table a set of actors that have never been there before. As I said to the chairman, Mr. Rostenkowski, on one occasion, when can you remember the last time when county commissioners, mayors, State legislators, private sector, neighborhood people, representatives of organized labor sat down and talked about economic development in a specific area of the city, and this is what has been occurring throughout the United States.

I think you all know that over 20 States have passed enterprise zone legislation. Just the existence or the potential for this legislation passing has got State government involved in many places throughout this country in economic development that heretofore haven't been willing to get involved.

I have mentioned that dozens of other cities throughout this country have brought people together who have never worked together and to prepare their applications to compete in the event this legislation passes.

I would like to just mention a couple of examples to you.

In my city, we have a place called Hough, where the riots occurred in 1968. We haven't had any market grade housing built there in years.

We are going forward now with a project being funded with help on a UDAG grant and a private sector bank is coming in there with a low-interest loan, something that no one would believe they would do, but because it is in the zone, they are interested.

We have gotten some 150 businessmen together that never sat down and talked about the area before, and as a result of that, they are cleaning up their area, and many have decided to stay and expand.

We are moving forward with an industrial park in the area, because we discovered that if we didn't, there were still businesses that were going to move out.

We have inventoried the incentives to attract them to the zone. I think that what this committee has to recognize is that once this legislation passes, something is going to happen in the United States.

I would like to read this. The course of action necessary as a part of the ES zone application requires cities to go through a community process to address their particular needs, and even if there aren't that many cities that are going to be designated, if this legislation causes people to get to go the way we have in the city of Cleveland, it is going to be something very, very worthwhile for the United States of America.

[The prepared statement with attachments follow:]

STATEMENT OF HON. GEORGE VOINOVICH, MAYOR, CLEVELAND, OHIO, FOR THE NATIONAL LEAGUE OF CITIES

Mr. Chairman and members of the Committee, I am George Voinovich, Mayor of Cleveland, Ohio. I am also Second Vice President of the National League of Cities.

As you know, the National League of Cities (NLC) represents over 15,000 municipalities through our network of state municipal leagues and about 1,100 direct member cities. I am pleased to be here today to express my views as well as those of NLC regarding legislative proposals to provide targeted tax incentives to distressed areas, commonly referred to as enterprise zones.

We congratulate the chairman and members of the committee for holding this hearing today on these issues which have been of continuing interest to me and the National League of Cities. NLC strongly supports the underlying concept of the various enterprise zones proposals to stimulate economic growth and employment in areas of poverty and high unemployment by encouraging businesses, through federally targeted tax incentives and local initiatives to locate, remain or expand in such areas. We view these proposals as an innovative experiment that brings to the table a new set of factors to economic development. These initiatives will permit city leaders to focus new tools on the economic wastelands that exist in our cities. We want to emphasize, however, that these are relatively modest tax incentives. Thus, in our view, this experiment must be wedded to those existing federal programs such as CDBG, UDAG, EDA, and job training funds to be successful. Mr. Chairman, in the interest of time, I would like to submit my full statement for the record on the major provisions of the administration's enterprise zone bill and then proceed to page seven of my testimony to address some of the tax policy issued raised in your announcement of this hearing.

ELIGIBILITY AND DESIGNATION

NLC generally supports the eligibility and designation process contained in the bill, which requires that all zones be located in Urban Development Action Grant (UDAG) cities or pockets of poverty, and that certain levels of distress be met by the designated zones.

The UDAG eligibility criteria were agreed to after considerable debate by the Congress during the reauthorization of the Community Development Block Grant Program in 1977 and 1980. They have acquired legitimacy as an extremely effective mechanism for targeting limited public resources to economically distressed communities. In addition, use of this established set of criteria will facilitate the coordination of enterprise zones with UDAG and other development programs.

Under the Administration's bill, an enterprise zone must be jointly nominated by local and state governments, with either having the power to block a nomination. Although we believe states should be encouraged to provide additional business incentives and program support to local governments, they should not have veto powers over eligibility or application procedures. Similarly, if a state nominates a local government for zone designation, this should occur only at the specific written request and with the full approval of the local government.

A related concern is the requirement that local and state governments must jointly pass enabling legislation creating the local incentives to be contributed to each zone in order to apply for zone designation. Several cities have indicated that their states are proceeding slowly in providing such enabling legislation. This situation is further complicated by the short and varied periods that state legislatures meet, with the result that many cities will not be able to compete in the zone designation process. In our view, state participation should be a factor of competition, not eligibility.

In addition, the legislation provides that the HUD Secretary may revoke a designation if the local government is not complying substantially with its commitment with respect to its promised package of incentives and contributions. We think such a provision may be needed; but it should instruct the Secretary, prior to revoking a designation, to notify the affected local government and to exhaust alternative remedies, including perhaps amending the commitment package. (Such an amendment might be relevant anyway if changing circumstances in a successful zone render a part of the commitment package irrelevant or even detrimental.) Furthermore, potential revocation raises the question of what would then happen to business' eligibility for tax incentives during the period of time that they would otherwise have been in effect.

LOCAL COMMITMENT

NLC strongly supports the flexible package of actions by which local governments can demonstrate their commitment to the success of the zones and reduce some of the burdens borne by employees and employers in the zone.

We believe that it is critically important to encourage local initiatives that best reflect local conditions. In some jurisdictions, local sales, corporate, or inventory taxes may free up more business capital and thus be greater incentives to investment than property tax reductions. The waiving of local regulations or requirements, technical assistance programs, "one-stop" offices for city licenses, code compliance, and so forth would all provide valuable incentives to enhance the zone's effectiveness.

EMPLOYMENT TARGETING

The bill provides substantial tax reductions to zone firms regardless of whether they create jobs for structurally unemployed or disadvantaged persons. Because we believe that creating jobs for such persons must be a key element of the program, we suggest that in order to qualify for the business incentives, firms should be required to hire low income or disadvantaged workers. Rather than have a standard nationally uniform employment requirement, each local government should decide what the requirement will be in that city's zone according to the types of proposed businesses, and subject to approval by the administering federal agency.

RELATED FEDERAL PROGRAMS

Any enterprise zone bill will have to take into consideration the additional costs that a city will probably incur in operating a successful enterprise zone program. These may include infrastructure expenditures that might not otherwise have been needed, especially those associated with the needs of a particular project; increased police, fire, or other public services resulting from greater economic activity; and costs associated with promoting the zone to firms, administering codes, zoning regulations, or providing technical assistance to firms.

We urge the Committee to keep in mind that while an enterprise zone program may be a useful addition to existing programs, it must and cannot be a substitute for them. Without adequate funding for economic development and training programs, the enterprise zone program will be far less successful than otherwise. Programs like EDA's public works grants could provide the infrastructure funds necessary for increased economic activity; HUD's UDAG grants could provide the necessary front-end assistance for new firms; and job training components under the Job Training Partnership Act could provide the training necessary for the structurally unemployed.

TAX INCENTIVES

NLC supports the use of targeted tax incentives to encourage job creation and capital investment in enterprise zones. Just as federal tax subsidies are used to encourage investment in specific areas of industry, such as oil and gas, we believe that there is a similar public purpose—a more important human purpose—in providing similar incentives for geographic areas of distress, as is the case with HUD's Urban Development Action Grant (UDAG) program.

Perhaps more importantly, and related, because we share the chairman and committee's apprehension about the growth of private purpose tax exempt bonds, we are unable to understand what public policy is achieved by imposing limits that have no relationship to need or to any criteria of economic distress.

We do not view the tax code as neutral. To the extent that there are tax shelters, they create incentives in the private sector. As this committee has attempted to deal in good faith with the revenue requirements of the budget resolution, we have viewed this session as an opportunity to examine the impact of tax changes on areas of high unemployment and economic distress. We have been disappointed with the committee's and administration's rejection of our concerns.

Thus, while noting that the Treasury testified in support of an IDB exemption in enterprise zones before the Senate Finance Committee on April 22nd of this year, we were taken aback when the Treasury refused to even consider an exemption or targeting provision as part of Title VII of the committee's bill. It is unclear as to just what the administration's actual position is. In our view, for tax incentives to revitalize distressed areas they must balance the incentives to both new and existing, high and low-skill, and capital or labor intensive investments. We do not want to penalize businesses or investors who have already made a long term commitment to an area, nor do we want to make the incentives so disproportionate that others will simply move to the enterprise zone, creating a shift in the area of economic distress, rather than real improvements.

We are, consequently, particularly aware of the task to attract investment into zones. In our view, this means a combination of capital formation and investor incentives.

Cities have used municipal bonds to make credit available where it is not available from conventional sources to meet rehabilitation, renovation, and housing needs in distressed areas. Consequently, we believe the proposed restrictions in both Title I and Title VII of H.R. 4170 should not apply in enterprise zones, although we concur in Representative Pickle's concerns that such zones should not become centers for pollution control facilities, power plants, etc. In our view, both Rep. Kemp and Rep. Rangel have attempted to address the issue of credit availability in their bills. We are pleased to see that concern addressed; however, we would note that interest exclusions and interest tax credits are only available where lenders or investors are willing participants. While lenders or investors are simply unwilling to make capital available in distressed areas, we need another mechanism to assure credit to small businesses.

The issues of capital formation and investor incentives are important and related. The majority of businesses that will be located in enterprise zones will be small-to-medium sized. These businesses are likely to be marginally profitable. Providing improved access to capital for zone businesses will be a critical concern to them.

We believe that the committee should eliminate the capital gains tax in these areas; and provide investment tax credits, including the Rangel bill's rehabilitation tax credit increases, an income tax credit with a carry forward for investment in a zone; and special tax incentives for SBIC's and MESBIC's in zones.

While we are not in a position to estimate the revenue impact of any of the zone bill proposals. We view this as an opportunity to recognize a revenue gain to the Treasury. We testified earlier this year with regard to restrictions we would recommend to better target both mortgage subsidy bonds and IDB's. We are confident that those restrictions would provide for an increase in revenue to the Treasury, while ensuring a more public purpose use for the proceeds of these bonds.

In discussing the issues of revenue implications, our organization has, of course, been confronted with the relationship of the enterprise zone proposals to direct spending programs. We do not feel that enterprise zones could succeed in the absence of direct federal assistance programs such as UDAG, CDBG, EDA, and jobs assistance.

Tax incentives provide a relative advantage in a number of ways. They guarantee investor certainty. Unlike the UDAG program, for instance, where potential developers must await annual Congressional appropriations and the discretionary selection process, tax incentives are not subject to such uncertainties. A developer knows exactly what incentives will be there before making an investment.

Likewise, tax incentives are a mechanism to leverage private capital investment where public investment is scarce. With almost annual efforts to cut back on federal direct grant and loan programs which provide investment in distressed areas, and with little likelihood of any increases in these important urban programs with current deficits, encouraging private capital investment towards infrastructure and distress needs grows increasingly important.

On the negative side, tax incentives do have disadvantages. They are relatively less meaningful for businesses which have little or no capital and which operate on a marginal basis. In addition, tax incentives can be relatively inefficient for local economic development purposes compared to direct spending programs. Instead of the full federal benefit being directed for the municipal purpose, a substantial amount is substracted for middlemen and investors.

Mr. Chairman, the comments I am going to make now are intended to supplement my testimony on behalf of the National League of Cities. I am speaking now for my city, Cleveland, Ohio, for its residents and business men and women as that city's Mayor.

It is impossible to overstate the critical importance of retaining business and industry within our cities and promoting the revitalization of our cities' residential neighborhoods. The social and economic infrastructure within cities is critical to the nation's economic well-being, our national security and our very way of life.

This country can no longer afford to replace or duplicate the massive investment in people and facilities which cities represent. As a consequence, cities are no longer disposable.

The cities can no longer be viewed as disposable like so many dixie-cups or paper plates which can be tossed aside once they have been used. They are, in fact, vital national assets which must be protected, conserved and revitalized.

It is important that we develop and implement effective programs which will result in the conservation and revitalization of our cities. It is now widely acknowledged that no program can be effective in combating the deterioration of our cities unless it is undertaken on a cooperative basis and involves the major stakeholders within the community that have a vested interest in seeing the job done. In undertaking any major revitalization effort, it is essential that the business community, neighborhood residents and directors of major cultural, health or educational facilities and institutions be brought to the table along with local government to set priorities, establish goals, and agree on implementation tactics. The mode of successful urban revitalization in the '80s is collaboration and cooperation, not confrontation.

The proposed Enterprise Zone Program is just such a program. I know, because in Cleveland for the past year and a half, we have been experimenting with this approach through our Target Area Investment Program. Through this program last year, we early on identified an area within the City which needed revitalization and would most probably qualify for Enterprise Zone designation under any of the concepts then under consideration by Congress. This area encompasses the Kinsman, Hough, Fairfax and Central areas as well as the educational, medical and cultural institutions located in University Circle.

In anticipation that Enterprise Zone legislation would ultimately be approved by the Congress, representatives of these areas were convened and given the task of developing a revitalization strategy for this area. This effort is known as the Target Area Investment Program. The participants involve a broad cross-section of the stakeholder businesses, institutions and neighborhood leaders within the Target Area. Their intensive year and a half strategy making effort continues. However, even at this very preliminary stage the effectiveness of this approach has been demonstrated.

It would seem that the mere act of getting the major stakeholders together in a room and focusing their attention on their mutual problems and opportunities can serve as a significant catalyst bringing about immediate action and progress, as well as renewing commitments to remain in and work toward the betterment of an area.

This new spirit of cooperation and commitment is being given very tangible expression in several new projects and efforts which have commenced as a result of the Target Area deliberations. These projects are as follows:

Midtown Industrial Park

Working closely with a community organization, the Hough Area Development Corporation, and a business organization, Midtown Corridor, Inc., the City has begun development of an industrial park in the heart of the City's Enterprise Area. The Midtown Industrial Park has been an idea supported by the community organization for almost ten years. It has now become a reality through the receipt of an EDA grant which will support infrastructure improvements to city owned land, land which is owned by the community group, and land that will be acquired through grant funds. Sites will be assembled and made available which will be comparable to suburban industrial land. This revitalization project will promote the retention or expansion of 13 existing businesses and provide space for new businesses.

Lexington Village apartments

Local Banks, community organizations, private foundations and the City have pooled their resources inan unprecedented effort to finance a 183 unit housing development in the eastern Hough area. This partnership effort will result in the creation of new low and moderate income housing for employees of nearby medical institutions. An Urban Development Action Grant will spearhead the development of the first phase of what will ultimately be a 600 unit development in eastern Hough.

Employment training

Through Cleveland's Target Area Investment Program efforts, an agreement has been reached among 7 training service providers to coordinate their activities through a pilot project as part of the City's Enterprise Zone. A memorandum of agreement has been signed to coordinate the marketing of employment and training services to area employers, which will increase the employment opportunities for Enterprise Zone area residents.

Land use planning

In part becasue of the disinvestment in Cleveland's Enterprise Zone area, the master plan for the area has not been updated since 1949. Under the guidance of Target Area Investment Program volunteers, mapping has been completed for the entire target area which provides information on water, sewer, zoning and current land use. A computerized data base has been compiled which contains information on all parcels in the area including information on up to 50 parcel characteristics including size, owner and tax records. This data base and map system will provide the basis for a new community-based vision of what the area should be in the next two decades.

Incentive inventory

A complete review of all business development incentives and financial assistance programs offered through the City of Cleveland and the State of Ohio has been undertaken. This inventory has been reviewed during 60 in-depth interviews with businesses located in the city's Enterprise Zone Area. Business owners' responses to the array of possible incentives and programs will guide the City in developing an appropriate incentive package for Cleveland's Enterprise Zone Program.

Building task force

A Building and Housing Task Force has been established which is examining the City's permit and licenses procedures. The Task Force will recommend ways in which the City can streamline its regulatory processes to assist developers in their efforts to move projects though governmental offices. We have chosen the City's most distressed area and have proceeded with a comprehensive redevelopment program because of our enthusiasm for the Enterprise Zone concept. Enterprise Zone tax incentives alone might not create jobs in distressed inner cities of America. But the "course of action" necessary as part of the Enterprise Zone application requires cities to go through a thoughtful community process to address their own particular needs. It allows for the differences in city capacity and economic conditions. Anticipation of Enterprise Zone legislation has caused hundreds of distressed communities across the country to learn to solve their own problems as they think through their "course of action."

The Enterprise Zone concept has been the catalyst to address the complex problems of inner city blight and unemployment. We are learning that there is a lot more we can do at the local level to retain existing firms and encourage new business development. But the forces which helped create migration from the inner cities are very strong, including suburban access to the interstate highway system and a tax structure which favors new investment in new plants. Assembling, clearing, servicing, and making land available for development at costs competitive with suburban industrial parks is only one of our tasks. The tax incentives offered through the Enterprise Zone Act will help make the decisive differences in our ability to be competitive once again.

Mr. Chairman, members of the Committee, I appreciate the opportunity to appear before you and present my views and those of the National League of Cities.

Thank you.

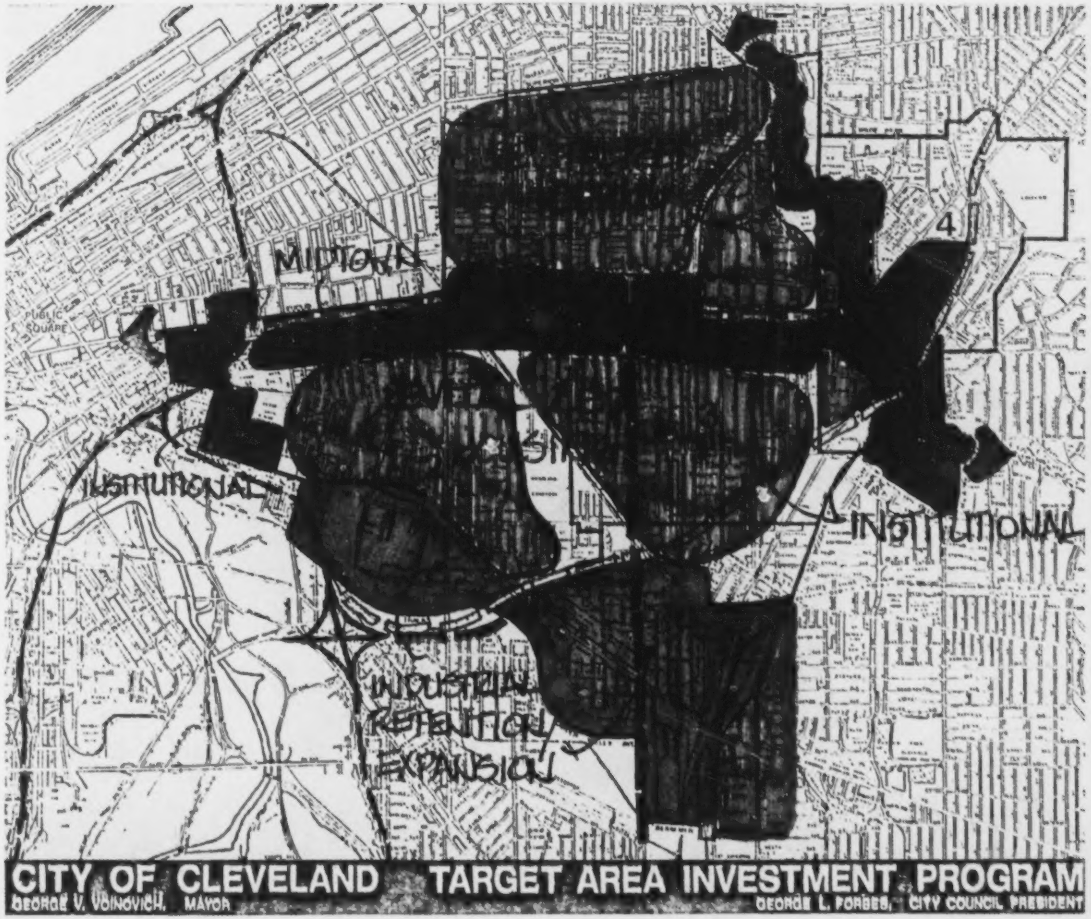
CITY OF CLEVELAND ENTERPRISE ZONE TARGET AREA INVESTMENT PROGRAM

The City of Cleveland has undertaken the Target Area Investment Program to create a neighborhood economic development strategy for an area of the City. Cleveland began this process to be in a position to respond quickly and effectively to anticipate federal enterprise zone legislation. The Programs's goals are to create new jobs, to create a climate for investment, and to cause substantial redevelopment. When complete, the Target Area Investment Program neighborhood economic development strategy will serve as Cleveland's enterprise zone "Course of Action".

The City is committed to implementing this program with or without enterprise zone designation, however. Significant public and private investments are currently being made in the area targeted for redevelopment. Community organizations and major institutions there provide a strong base of support for redevelopment efforts. The City's Target Area Investment Program is building upon these strengths in the hope that the revitalization will be achieved more quickly through a comprehensive, coordinated effort.

Committees, composed of more than 150 volunteers from the public and private sectors, worked for nine months to address the objectives of the Target Area Investment Program. Some committees reached conclusions and made specific recommendations. Others developed a data base, identified a set of policy options or identified larger-order issues which would be addressed more effectively in a citywide or regional context. The Urban Land Institutes Panel Advisory Service was engaged to conduct a review of the Target Area Investment Program committee recommendations. Suggestions made by the Urban Land Institute panel have been reviewed by a Steering Committee and will guide completion of the City's enterprise zone Course of Action.

The ultimate success of the Target Area Investment Program will depend upon building a consensus around the implementation plan. Different levels of government, private interests, and residents of the Target Area community must reach agreement on common objectives and a redevelopment strategy. They also must agree to contribute resources to carryout the program. A negotiated development process will be used to reach a consensus and secure commitments from all parties interested in the future of the Target Area. Using a neutral mediator to resolve differences, agreement will be reached during a formal process which will result in a neighborhood economic development strategy for the Target Area. An ongoing community process wili also be established to monitor implementation of the plan.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CITY OF CLEVELAND TARGET AREA INVESTMENT PROGRAM
GEORGE V. VOINOVICH, MAYOR
GEORGE L. FORBES, CITY COUNCIL PRESIDENT

PRELIMINARY
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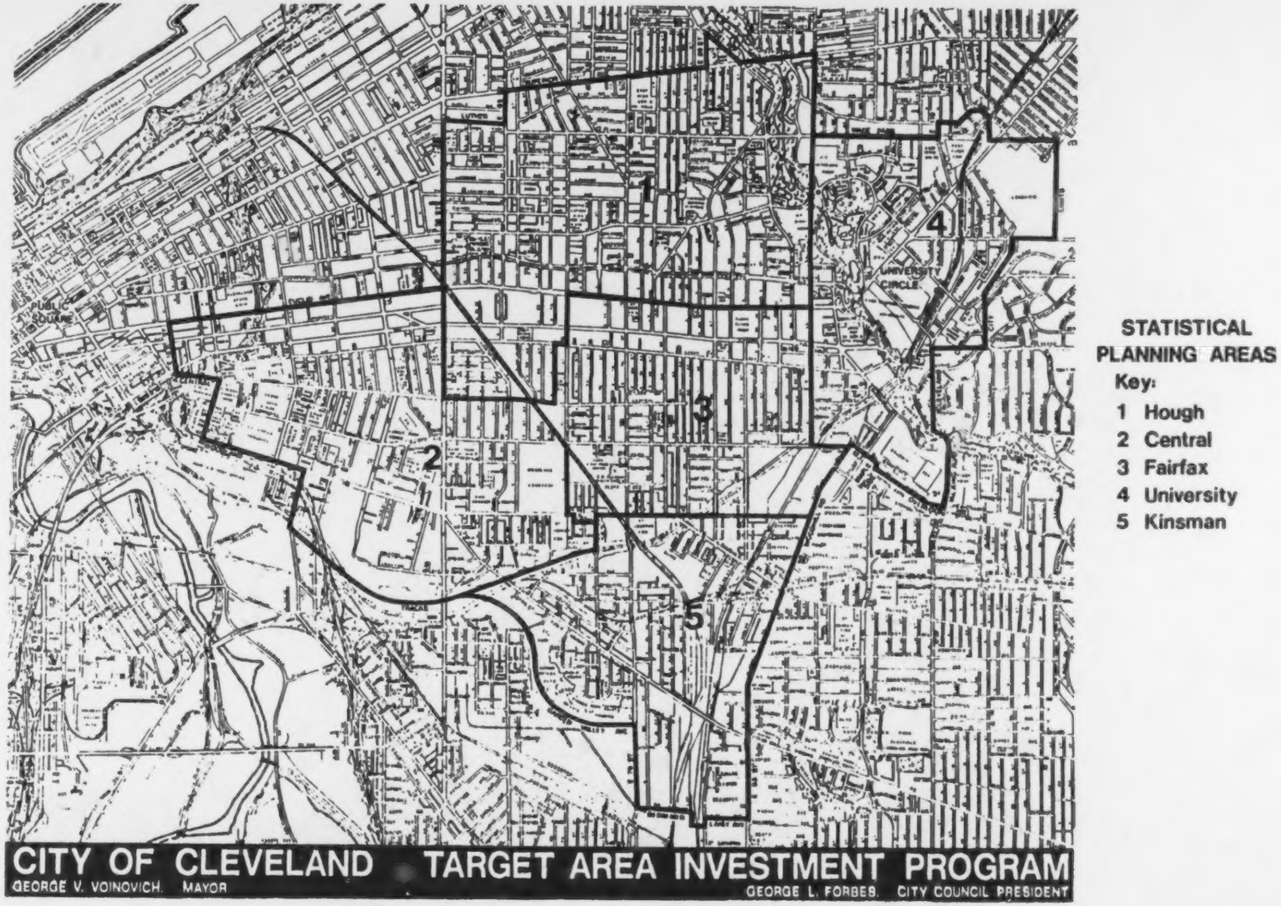
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STATISTICAL PLANNING AREAS
Key:
1 Hough
2 Central
3 Fairfax
4 University
5 Kinsman

CITY OF CLEVELAND, OHIO ENTERPRISE ZONE PROGRAM—CHRONOLOGY

January 1981.—Mayor Voinovich convenes a task force of business, academic and government leaders to review and advise him regarding enterprise zone proposals. The Task Force meets and makes recommendations to support the concept and to improve the incentives offered in various federal enterprise zone bills.

June 1981.—City of Cleveland takes the lead to seek introduction of Ohio's Urban Jobs and Enterprise Zone Act.

August 1981.—Cleveland Department of Economic Development begins an enterprise zone feasibility study.

November 1981.—Department of Economic Development completes preliminary feasibility study for Cleveland's Urban Jobs and Enterprise Zone Program Proposal.

February 1982.—U.S. Conference of Mayors, Triangular Partnership Program Team visits Cleveland and convenes a two-day forum with public and private leaders to discuss Cleveland's enterprise zone strategy.

March 1982.—Ohio House Bill 351, Ohio's Urban Jobs and Enterprise Zone Act, becomes effective.

May 1982.—Loaned executive is secured from Cleveland-based securities firm who agrees to coordinate City enterprise zone efforts.

July 1982.—Proposals are submitted to three local foundations for $150,000 which is awarded for Cleveland's enterprise zone efforts.

August 1982.—Target Area Investment Program Steering Committee is formed of elected and appointed governmental officials, businessmen and community leaders.

September 1982.—Target Area Investment Program Planning Groups begin to meet and address defined goals and objectives.

November 1982.—Survey of 100 neighborhood organization and institutions in the Target Area is conducted.

December 1982.—Housing and commercial condition survey is conducted to determine feasibility for rehabilitation and construction.

January 1983.—Work begins to complete map series for the Target Area at 1"200' scale with street and building base; water, sewer, and zoning overlays.

February 1983.—Interviews are conducted with 60 area businessmen to determine the strengths and weaknesses of their location, and what federal, state and local incentives are most attractive.

March 1983.—Community meetings are conducted.

April 1983.—Planning Groups submit their reports, including data and recommendations for Cleveland's enterprise zone "Course of Action".

May 1983.—Mayor holds volunteer recognition ceremony, commending 200 individuals on their contribution to the Target Area Investment Program.

June 1983.—Urban Land Institute Panel Advisory Service conducts site visit to review the City's "Course of Action" and makes recommendations on appropriate implementation strategies.

August 1983.—Steering Committee completes review of Planning Group and ULI recommendations.

October 1983.—Committee agrees to final products and process to secure commitments to carry out the Course of Action.

November 1983.—Scope of work is defined to complete the neighborhood economic development strategy for the final Course of Action.

Mr. ANTHONY. Thank you very much.

Mayor Althaus?

STATEMENT OF HON. WILLIAM J. ALTHAUS, MAYOR, YORK, PA., ON BEHALF OF THE U.S. CONFERENCE OF MAYORS

Mr. ALTHAUS. Thank you very much, Mr. Chairman. I appear on behalf of the U.S. Conference of Mayors. The Conference of Mayors has, in 1982 and 1983, passed resolutions strongly supporting the enterprise zone concept.

I have a prepared statement of the Conference of Mayors which I would like admitted to the record, if you would.

Mr. ANTHONY. Without objection.

Mr. ALTHAUS. I don't intend to read it to you. But I would like to make a couple of comments on it.

The conference and member cities, I would think, unanimously very strongly support the concept of enterprise zones and appreciate the administration's introduction of legislation to create such a program.

We have some suggested changes perhaps in the legislation, but we urge the Members of Congress to pass in 1984 some form of enterprise zone legislation.

Let me highlight a couple of areas where we think changes might be considered by the Members of Congress. In the area of new businesses, we would advocate some kind of Federal technical assistance to new businesses or perhaps refundable tax credits, because the generation of new business and capital for business is one of the most difficult areas in any challenging development situation.

Second, we propose that tax incentives be coordinated with other Federal programs. I think it would be extremely unfortunate if an enterprise zone enactment would be considered an alternative or replacement for existing Federal programs, rather than being coordinated with them.

Any mayor can tell you that as Federal programs continue to diminish, to consider the enterprise zone legislation as a substitute would be devastating.

We believe that there should be great flexibility left to local governments, and that HUD should not attempt to designate which sorts of commitments would be made by local or State governments.

I think that the flexibility must exist in local government. In local government, one of the great problems we have is that the State legislatures do not think that we can determine the needs of our communities.

I think it would be a mistake for a congressional enactment to take that view as well. We urge that the legislation not require State participation, a submission of the application, because I think that could be a problem, although I do not believe so in Pennsylvania for reasons that I will discuss in a moment.

We believe that there may be room for more employment incentives. Some of the tax incentives in the proposed legislation are oriented toward capital areas which could discourage employers from labor investment and encourage more to capital investment.

I do not think the capital incentives should be removed, but coupled with increased job incentives, would do more good in communities such as ours.

Mr. ANTHONY. What do you mean by employment or job creation incentives?

Mr. ALTHAUS. I would say that almost any incentive in the nature of some kind of tax forgiveness or credit expanded on what presently exists for creation of jobs within a zone.

If you have job incentives directed to an enterprise zone, that is something which does not ultimately cost the Federal Treasury, but which will be of more value to us. Any kind of further employment creation linked to job creation on a dollar-for-dollar basis is something that we have employed at the local level in some of our loan programs.

We have an energy loan program tied to $1,000 per job. I would not urge that as a substitute for other incentives in the program, but in addition to them.

The conference is not tied to any precise formulation, but some kind of additional emphasis on jobs. You can build all the monuments you want, but if they employ no one, we have solved only part of the problem.

In my State, Pennsylvania has passed what we think is a very forward-looking enterprise development area concept. We use the same idea with different terminology. It consists of six grants to pilot cities of which York is one, with a modest cash grant, only $250,000 the first year, coupled with local dollars and Federal CDBG dollars.

In addition, there is priority on other State programs, State technical assistance, and the whole program is run by an oversight committee.

As Mayor Voinovich pointed out, it is remarkable when you have, as we have in York, community activists, bankers, city officials, county officials, ministers—some people who have never talked to each other before—all sitting on the same committee making hard-nosed decisions.

The Pennsylvania program, at least in York, and probably in the other five areas, has had a remarkable history in less than 1 year. We have jobs, things are being done, but I submit that it is only part of the answer.

In recent years, the fashionable thing has been to talk about the great public-private partnership. Since we know that is the answer to our ills, the only question is how do you do it.

We have had something of a public-private partnership, but my judgment and the judgment of Pennsylvania officials, I don't presume to speak for the Governor, the local officials, is that without Federal involvement, the State and local effort is not sufficient to answer the problems.

The Federal incentives and assistance, I think, are necessary. A number of States and cities have gone forward in this area on their own. Ours is not designed to prepare for the Federal program.

We decided a year ago that even if we didn't get the State grant, we would go ahead locally. The State grant made it work. The Federal plan is sine qua non. Without it, I don't think the State legislatures have enough tools to work.

Our position is strongly in favor of legislation similar to that introduced with some of the modifications cited. I think the time has come for the Federal Government to catch up with the States which took the lead and moved past the Federal Government in this area.

Thank you.

[The prepared statement follows:]

STATEMENT OF HON. WILLIAM J. ALTHAUS, MAYOR, YORK, PA., ON BEHALF OF THE U.S. CONFERENCE OF MAYORS

Mr. Chairman, Members of the Ways and Means Committee, thank you for this opportunity for the U.S. Conference of Mayors to testify on enterprise zones, a subject of considerable interest to Mayors around the country.

The U.S. Conference of Mayors has long been supportive of the concept which underlies enterprise zone legislation, namely the use of tax incentives to encourage investment and job creation in distressed urban areas. At our annual meetings in 1982 and 1983, the Conference of Mayors adopted resolutions on enterprise zones which urged the enactment of legislation with the following characteristics:

Special help for small businesses and new ventures through loan assistance, refundable tax credits, and incentives to encourage financial institutions to make loans in enterprise zones;

Linkages between enterprise zones and other development activities with additional funding for training, EDA, UDAG, Community Development Block Grants and other programs in enterprise zones;

Encouragement of state involvement in and commitments to an enterprise zone, but without absolute state veto over the creation of a zone; and

Strong and effective employment incentives that more than balance investment incentives within the zone.

The Conference of Mayors is pleased that the Administration has embraced the concept of enterprise zones and has sent its legislation to the Congress. While we would like to see some changes in the Administration's bill, we would urge that the Congress enact an enterprise zone program next year. The Conference of Mayors believes the enterprise zone approach is worth trying on an experimental basis, as a supplement to ongoing development programs.

We are not certain that the tax and other incentives incorporated in the Administration's bill will be sufficient to entice investors into distressed areas. However, if the program is only marginally effective, the revenue loss to the federal government will be very minimal.

The Conference of Mayors has a few suggestions for improvements in the Administration's enterprise zone legislation, which we believe would make the program more successful as a development tool in urban areas.

First, the Administration provides no special assistance or support for new businesses. In fact, their approach drops a tax incentive, encouraging banks and other investors to make loans to businesses in enterprise zones, which was included in the 1981 version of the Kemp-Garcia bill, and which the Conference of Mayors supported. One of the most significant impediments to the startup of new businesses is the lack of access to the private capital markets. Thus, we have urged that the Administration and the Congress establish a "new venture fund" for small businesses in an enterprise zone, as has been done by some of the states which have enacted enterprise zone legislation. Moreover, we also continue to support refundable tax credits, which provide some relief to new enterprises, as well as management and technical assistance to fledgling entrepreneurs.

Secondly, Mayors continue to support the coordination of the tax incentives in the bill with other federal programs, including economic and community development, training programs, management and technical assistance for small businesses and other appropriate assistance programs. In this regard, we are pleased that enterprise zones would be linked with the creation of Foreign Trade Zones, and the continued use, without restriction, of industrial development bonds. However, we believe that enterprise zones should be part of a much broader economic development strategy for assisting distressed areas.

It is unfortunate that many of the programs that should be tied in some way to enterprise zones have been eliminated or severely curtailed under the Reagan Administration's FY82 and FY83 budgets, including CETA training activities, economic development programs, assisted housing programs, adult and vocational education programs, and urban parks. The Conference of Mayors hopes that this Committee and the Administration will not view enterprise zones as a substitute for proven, ongoing federal programs.

Third, the Conference of Mayors opposes legislative language which would, in essence, require state and local governments to give HUD a guarantee that they will honor their commitments, or "lock in" their commitments before winning an enterprise zone designation. Such guarantees have never been given by the federal government and indeed are out of place in a governmental and democratic context.

Fourth, we are concerned that HUD resist the temptation to impose its values and priorities on local governments, in terms of the commitments they must make if they are awarded one of the 13-25 zone designations. It is important that local governments have substantial flexibility in designing their commitment to an enterprise zone. After all, local officials and citizens know best what incentives are needed in their community to attract business investment and jobs—whether regulatory changes, service increases, infrastructure improvements, or tax cuts. HUD officials have reassured us that they will exhibit an "open mind" in evaluating state and local applications, and we are hopeful that they will do so. However, over the last year, in many of the materials accompanying this bill, the Administration has spelled out the types of commitments which they will favorably consider—e.g., changes in zoning ordinances, occupational licensing, economic development planning, the contracting out of services to the private sector, and the creation of neighborhood enterprises associations. These changes may not be appropriate in some cities, whereas others, like crime control, may be extremely important. We would urge this Committee, if an enterprise zone program is enacted, to request that HUD submit to the Congress for its prior approval the proposed criteria for designating zones before any zone designations are made. This will at least ensure that there is some openmindness about the process on the part of HUD.

Fifth, we are concerned about the ability of the state to "veto" the creation of an enterprise zone. While the Conference of Mayors recognizes the importance of the state making a financial commitment to an enterprise zone, we do not believe it is sound or effective federal policy to require that the state must submit the enterprise zone application along with the local government, nor to require a state commitment. As you all know, the nature of the political process in some states may result in no enterprise zone designations, however, distressed the area may be. Some governors and state legislatures have never been very sensitive to the needs of distressed areas, and view any kind of targeting with anathema. Moreover, many state legislatures meet irregularly or at long intervals, which means that the formulation of the state commitment within a short period of time may be technically impossible. Thus, by mandating a state role, however desirable and important it may be, many cities will be precluded from participating in the enterprise zone program.

One final point concern us. The Conference of Mayors believes that the most important objective of enterprise zone legislation is to create jobs in distressed areas. On this score, I am uncertain whether the package provides enough employment incentives, however generous they may appear to be. For example, most of the investment incentives—the additional investment tax credit and the elimination of capital gains—may be more attractive financially to many firms than the additional employment incentives. The result may be investment in labor-saving machinery which translates into a net loss of jobs or the "selling-out" by firms which have been in the area a long time and decide to avail themselves of the capital gains incentive. Clearly, this whole area of efficacy of employment incentives versus incentive, needs to be examined in more depth.

In view of the many reductions which have been made in urban programs in recent years and the immense costs which would be imposed on cities as a result of the tax bill reported by this Committee this year, the Conference of Mayors urges you to move quickly to enact legislation which will encourage investment and job creation in distressed urban areas. An enterprise zone proposal represents one positive step in this direction and should be enacted. The Conference of Mayors looks forward to working with you and the Congress on this and other tax legislation to help the distressed areas of our nation. Thank you for this opportunity to present the views of the U.S. Conference of Mayors and enterprise zones.

SUMMARY OF YORK'S ENTERPRISE ZONE

Most of the City's industries are built-up and located along the rail corridor which is surrounded by residential neighborhoods. The cost of assembling developable land is exorbitant because of the cost of relocating the families living nearby. In late 1980, the City did a follow-up study to the rail corridor study by examining the possibility of providing an inner city industrial park. To assemble 26 acres in an area appropriately zoned heavy industrial, the costs were $7,800,000 or roughly $300,000 per acre. It is noted that all potential areas considered by the Overall Economic Development Program Committee would involve major demolition, acquisition, and relocation costs. The second problem is the attempts by the City to reduce the imbalance between revenue and expenditure. Raising property tax rates and other regressive taxes merely made the City of York less attractive to mobile middle income residents and accelerated the erosion of the commercial base and the ultimate decline in the small business sector. The third problem is most of York's industrial buildings are antiquated and obsolete. Built in the late 1800's, most of these buildings are structurally unsuitable for modern industrial uses. The fourth problem is the high energy costs associated with remaining in the older buildings. Many of the older buildings were designed for maximum efficiency with no thought to energy conservation. The fifth and final problem lies with the social and economic strain caused by the population shifts. The 1980 census shows that the income gap is continuing to widen between the County and the City of York. This same trend also occurs in per capita income. Measured in constant dollars, the County of York has kept even with the inflation in the 1970's, but the City of York continues to lag behind the rise in the cost of living.

Many of these problems are not uncommon to third class cities in Pennsylvania, however, evidence indicates government response has been ineffective in reversing these problems. There was a need for innovative thinking by involving the private sector in economic revitalization. In March of 1983, the State Enterprise Zone concept was announced. The essence of this program was to develop innovative tax, regulation and public/private financial policies which would enlist the resources, skills and entrepreneurial energy of the private sector to achieve urban economic revitalization.

To that end, the City of York prepared an economic development area strategy for the railroad corridor and the west end. The strategy is based upon the City retaining as many of its present industries and businesses as possible. It is the position of this City that local government can be more effective and responsive if they are familiar with the needs and problems of businesses currently in the corridor than with new firms outside the area. Coupled with this is the need for the City to support the growth and development of small business. One of the greatest economic problems experienced by York is the poor birth rate of small business. Small firms are the most effective creators of jobs in the City's economy, and provide the types of jobs most suitable to the skill levels of City residents. The work ethic and the attitude that "anything can be built in York" are good selling points that need to be emphasized by York when trying to keep an existing business from relocating or attracting new businesses to locate. The second part of the strategy deals with job training assistance to the under-employed and unemployed. Current unemployment figures suggest the entire manufacturing economy in York is undergoing a transformation from secondary to tertiary type industries. If the City is to ensure its share of the economic propserity in York County, an increase in the supply of trained workers to meet job needs must occur. Finally, the City must begin to deal with the physical, social and economic problems in the west end. Such massive assistance could only occur if there is a true working relationship between the state and local governments and the private sector.

As a result, these objectives were identified to accomplish this strategy.

Objective 1: Maintain York's present industrial and commercial base within the rail corridor while encouraging new small business.

Objective 2: Increase the supply of trained and qualified workers to meet future job needs for those industries and businesses locating and/or expanding in the corridor.

Objective 3: Develop a neighborhood redevelopment strategy that stresses housing rehabilitation and property acquisition and demolition on an equal basis while providing public improvements to the infrastructure in the west end.

Projects identified to accomplish objective 1 were: acquisition, demolition and relocation funds for business expansion; provision of a loan program for small business for rehabilitation and risk capital; submission of Urban Development Action Grants for business expansion; tax abatement through the Local Economic Revitalization Tax Act (LERTA); energy loans from the Small Enterprise Development Corporation; increased police patrols to reduce vandalism, and public work projects designed to increase truck access and improve the sewer systems in the rail corridor.

Projects to accomplish objective 2 were: the funding of a skill training center that would tie in with the Ben Franklin Scholarship project through the York Industrial Development Corporation.

Projects to accomplish objective 3 were: housing rehab loans and grants, rental rehabilitation loans, property acquisition and demolition; code enforcement; new constuction; infrastructure improvement to include: street, curbs, sidewalks, storm drainage, traffic improvements; and residential energy conservation loans.

Mr. RANGEL. Mayor Smith?

STATEMENT OF HON. JOHN H. SMITH, MAYOR, PRICHARD, ALA., ON BEHALF OF THE NATIONAL CONFERENCE OF BLACK MAYORS

Mr. SMITH. I represent the National Conference of Black Mayors. I am also chairman of the Resolutions Committee of the National Conference of Black Mayors.

I am also here representing the city of Prichard. While I am not representing the National Conference of Mayors, of Republican

Mayors, I would like the record to show that I am also vice president of the National Conference of Republican Mayors.

I am honored to be here this afternoon in support of H.R. 1955, and certain select features of 1735. I have some brief remarks, but I would like to submit a more detailed statement for the record, if you would permit.

I would like to first thank this committee for scheduling these hearings, and I hope that this is the beginning and the continuation of passage of this legislation, because we do need it at the local level.

I would also like to thank my distinguished Congressman from the State of Alabama, Mr. Flippo, who is not present, for his support of the enterprise zone concept.

As you know, Congressman Flippo is aware that the statistics released recently on unemployment rates dropping in this country had little or no notice and impact on the State of Alabama.

I am certain that one of the reasons that he has given tremendous leadership in this direction is because of that fact. We want to continue to support him in our State as he moves forward to insure that this legislation moves.

Mr. Chairman, the National Conference of Black Mayors, representing some 250 mayors in the United States, are in total and complete support of H.R. 1955. We are confident that this is the right step for solving the problems of developing opportunities for our cities and our towns, and we are without reservation or hesitation on this point.

Many of the mayors in our conference represent small cities and towns, and are responsible for managing some of the most distressed areas in the United States today. It is for these basic reasons of unemployment and development needs that we give unconditional support to H.R. 1955.

I would like to, however, stress briefly seven basic points of interest to the National Conference of Black Mayors in giving our support to this legislation.

One, the establishment of economic zones with investment incentives to industry to relocate or develop within black settlements. There are some data that indicate that our industries and corporations have a reluctance to invest in zones that tend to have populations greater then 30 percent.

We believe that this legislation would at least provide the incentives to allow mayors to become aggressive, to offer additional incentives for industry and corporations to not only relocate in our area, but allow them to retain and encourage expansion of small businesses within our area.

Second, the organization of enterprise zones to arrest and stimulate declining and stagnating areas within the city. None of us are under any illusion that somehow a magic wand is going to be waved, but we at least are drawing a ring around a certain area, and it allows us to get together with agencies and other individuals and with the private sector and individuals living in those areas, get together with them to imagine and to dream and to plan exactly how we begin to work ourselves out of these problems.

We do it on our own. The third is establishment of provisions for municipal incentives and initiatives in housing, community and economic development, small business involvement, banking, financing assistance, employment and training programs.

We are very interested in this legislation because it provides opportunity for us to begin to open up these avenues for discussion and offer these incentives.

Local governments begin to exercise a greater degree of control over the direction of the lives of the municipal corporations and the people residing there. The cooperation and coordination of private capital with Federal tax incentives and municipal government management integration.

It is very important, we believe, that local governments assume greater degrees of control over what is happening to us at the local level. We like the fact that this legislation gives us the ability to begin to integrate the other agencies around our own desires and our own ends and directions.

We think that is a positive thing that is offered within the bill. The technical emphasis on municipal self-reliance through economic recovery investment techniques—we believe that this particular emphasis within enterprise zones allows the local government to begin to imagine itself as a self-reliant vehicle.

It is not subjected to many of the politics at the State and Federal level. The idea of self-reliance is very important to us at the local community, particularly those of us who have to manage small towns and we may not have the political muscle to get your ear at this level.

Sixth, the concentration of community development activities within the organized and the captive land areas and which focuses on some specialized population. Again, I imagine a city that is 80 percent black. Many of our mayors in the National Conference of Black Mayors are managing towns that are predominantly black.

It allows us again to point out the particular dynamics and organizations of our particular cities and towns and take our own particular approaches to those problems without having to adjust ourselves to the regulations of some Federal grant.

We like that particular feature. Seventh, the potential to recover and increase land values and revenue yields while advancing human resources and development through job creation.

In this respect, we think the legislation has the potential to advance traditional civil rights into a future environmental human rights policy for the Nation. Again, the fact that you designate an area as a specialized zone does increase the value of that area, creates excitement, creates hope and promise for individuals who reside within that area.

I would like to add a little involvement of the city of Prichard. We have been involved in enterprise zone development since around 1981. We have established and Office of Enterprise Zone Development.

The State of Alabama has also taken the lead in creating statutes, bills of local application for both the city of Prichard and the city of Birmingham. We support this wholeheartedly. It is my opinion, as both a political leader and a scientist that this bill, as drawn, and with some of the proposed modifications that are in our detailed statement, will result that major contribution to solving the municipal problems of organizations, environmental design and management, human resources development.

I look forward to assisting you in the passage of this legislation in implementing its intent through the National Conference of Black Mayors in my own city of Prichard.

Thank you.

[The prepared statement follows:]

STATEMENT OF JOHN H. SMITH, MAYOR, CITY OF PRICHARD, ALA., CHAIRMAN, RESOLUTIONS COMMITTEE, NATIONAL CONFERENCE OF BLACK MAYORS, VICE PRESIDENT, NATIONAL CONFERENCE OF REPUBLICAN MAYORS

Mr. Chairman, I am honored to appear this afternoon representing the National Conference of Black Mayors and the City of Prichard, in support of the Enterprise Zone Employment and Development Act of 1983 (H. R. 1955) and certain features of H. R. 1735.

As a representative of the nation's two hudnred and forty-seven (247) Black mayors and mayor of the most distressed community of its size in the United States, I strongly support the concept of a comprehensive Community Development, Employment and Tax incentive policy for the nation's urban and rural cities and towns. The potential of the Enterprise Zone concept to create self-reliant economic and political environments, regardless of size, offers a tremendous advantage to the small towns and cities represented by the National Conference of Black Mayors. We are encouraged that the federal govenrment is finally awake to the needs for local control within the context of cultural and human resource development. Employment of local talent and development of the physical environment are critical focus ideas in the Economic Recovery of America's distressed zones.

Mr. Chairman, the National Conference of Black Mayors established a Resolution insupport of Enterprise Zones in 1982 and authorized my appearance before the Senate Finance Committee to express the interest of our organization in passage of S-863; in addition, the City of Prichard established by Resolution in 1981 the Prichard Enterprise Zone with the State of Alabama enacting into law in 1983 legislation authorizing the establisment of state incentives for the Prichard Zone and for the establishment of Secondary Zones. Our City has the experience over the last three years of planning and design of Enterprise Zones at the local community level and involving the local public and private sectors in the effort. This experience suggests that local U. S. economics are evolving into one of the greatest economic explosions and miracles that has occurred on the world scene; and one which should involve every community in America. Even with our status as the third most distressed community of its size in the nation, the concept of Enterprise Zones has generated a new wave of creativity, hope, promise and innovative activitism in promoting employment and business development opportunities in the City of Prichard. Since the establishment of the Prichard Enterprise Zone, the community organized the first InfraCare Center in the United States as an employment and child development program and received the 50th Anniversary Award from the U. S. Conference of Mayors for this effort (Exhibit I); the Prichard Enterprise Zone has received national recognition from the Department of Housing and Urban Development for its promotion of private sector-public sector partnerships (Exhibit II); an award from the U. S. Conference of Mayors for the Enterprise Zone approach to Volunteerism and Unemployment (Exhibit III); and an award from the U. S. Conference of Mayors and Phillip Morris

Corporation for the City's contribution to the arts in Enterprise Zone development (EXhibit IV). In addition, the City recently concluded a major Regional Conference on strategies for investing in Prichard's Enterprise Zone (Exhibit V) and Regional Hearings by the Prichard's Advisory Committee on Small and Minority Enterprise. The above facts are simply indicators of the Economic Renaissance occurring even in areas such as Prichard from the mere discussion of such zones and suggest strongly that H. R. 1955 should be enacted into law with the recommended changes from the National Conference of Black Mayors.

Mr. Chairman, I have reviewed the Enterprise Zone and Employment Act of 1983 (H. R. 1955) for its general and specific impacts on U. S. Black settlemetns, the City of Prichard and the nation and recommend that the Committee study our approach and technique and amend the legislation as requested. I have attempted in the review, to highlight the positive attributes of the legislation, as well as offer professional criticism where limitations were found. However, in view of weaknesses and limitations observed, I have offered concrete considerations and alternatives. In addition, Mr. Chairman, I have had detailed discussions with Congressman Mitchell's office to secure a Bi-partisan perspective from representatives of the African-American community on the concept of Enterprise Zones and/or Revitalization Areas and we therefore support select aspects of H. R. 1735.

The reduction and elimination of Urban and Rural Problems , fiscal distress, housing deterioration and business and industrial development needs and advancement of employment opportunities for populations within such areas, are dependent on the establishment of a science and technology which comprehends and provides a frame work for establishing decentralized self-reliant local communities, complex systems problems and conflict associated with design and management of the political, economic and social environments are demanding innovative and revolutionary approaches to planning, design and management of private and public relationships. However, before local communities can begin the awesome task of Economic Recovery, and within a technical spirit of innovation and local control, the federal government must establish the general ·one of support for a new American legal-technical philosophy of planning, design and management for people, enterprise development and capital formation and housing needs. In addition, the Congress and the President must provide leadership and encouragement to this new movement through policies and program of local, economic self-reliance and within the context of systems organization and procedures. Local governments can no longer afford to isolate and compartmentalize urban and rural issues as human, economic, unemployment, social or political problems. Rather, problems of urban and rural development are integrated systems issues involving all of the above and possibly more. H. R. 1955 to establish Enterprise Zones provide the framework for establishing this broad pattern for all public and private sector cooperation and from a multidisciplinary-multiprofessional focus.

As a professional in the fields of Ethnic Science, Urban Planning, Municipal Design and Human Settlement Management for ten (10) years, it is my judgment that H. R. 1955 has the greatest potential of any Act that I am aware of in recent memory to achieve economic recovery for distressed cities. However, there are certain essential elements which must be included before the Bill is considered a Comprehensive Community Development, Employment and Tax Incentive Policy. Within this context, legal policy incentives must be coupled with a technical process for implementation. A legal-technical application and emphasis of the Act is suggested to ensure the systematic implementation of its purpose. These must necessarily include local government, industry, service-oriented land development professions and the university community. It is my opinion that the Bill provides adequate incentives for local government, industry, the planning and design professions, but fail to include incentives for university public services and research programs within Enterprise Zones. The university as a valuable resource should be strongly included in the final legislation. In addition, the Bill should allow every city receiving Community Development Block Grant assistance to participate in secondary zones through strengthening the community Reinvestment Credit Act. In this regard, the Bill and program would become a national experiment rather than a program for a select 75 cities per year.

You may also examine more closely the human factors aspects of the legislation. That is, how will the design features of the proposed law accomplish in detail the purpose of developing people and human resources within the enterprise zone. The human resource and the human factor, in my view, are the basic units for a focal attack on distressed communities. Ultimately, benefits to enterprise zones must benefit people through employment and productivity.

Considering the above, you may want to request that the Office of Technology Assessment examine the various alternatives and scenarios which could become associated with the implemented law, so that proper negative and positive impacts can be anticipated.

The City of Prichard, as a possible prototype for Enterprise Zones, will benefit immensely from The Enterprise Zone Employment and Development Act. Specifically, the Act provides basic features of essential interest and benefit to National Conference of Black Mayors and the City of Prichard. These include, but are not limited to:

1) The establishment of economic zones with investment incentives for industry to relocate or develop in Black Settlements;

2) The organization of Enterprise Zones to arrest and stimulate declining and stagnating areas within the cities;

3) The establishment of provisions for municipal incentives and initiatives in housing, community

and economic development, small business involvement, banking, financial assistance, employment and training programs;

4) The comprehensive coordination of private capital with federal tax incentives and municipal government management integration;

5) The technical emphasis on municipal self-reliance through economic recovery-investment techniques;

6) The concentration of community development activities within an organized captured land area and which focuses on a specialized population;

7) The potential to recover and increase land values and revenue yield while advancing human resources and development through job creation. In this respect,the legislation has the potential to advance traditional civil rights into a future environmental human rights policy for the nation.

Establishment of Enterprise Zones

The organization of specific land areas within cities for economic and community development purposes will allow planning and design professionals the opportunity to adjust land use strategies and zoning regulations with achieve the purpose of increased business investment, reduce unemployment and greater revenue intake for local government. In addition the Enterprise Zone, within the meaning of the proposed legislation, provides the necessary incentives for capital to seek and take advantage of superior investment offerings.

The hidden dimension of H.R. 1955 and the enterprise zone concept is the potential of the United States Government to establish a broad range and class of development districts for research and demonstration purposes, the reuslts of which may have long range future impacts for solving basic problems of decline and economic stagnation. To this end, H. R. 1955 offers a major opportunity to bring together past scientific and technological efforts with futuristic studies and practices to improve American settlements. Such efforts are projected to result in an innovative legal-technical policy and national philosophy on urban and rural design and economic development.

Enterprise Zones: Arresting and Stimulating Declining and Stagnating Areas.

The urban and rural environments as continuous, dynamic and evolutionary networks of diverse population, housing structures and work institutions are not understood by the United States government, design professions and the social sciences in formulating strategies for solving problems of physical decline and economic stagnation. It is a basic relaity that the decline of the urban and rural environments in the United States is associated closely with specific populations and income groups as well as industrial economic institutions. Considering this context, H. R. 1955 offers an immediate potential to formulate solutions which arrest urban decline and economic stagnation problems.

The Enterprise Zone Employment and Development Act is a conceptual admission that the United States urban and rural problem is a population systems issue and the absence of organization, design and location of work institutions in certain areas. Redistribution of work institutions rather than a redistribution of the wealth of such institutions is a basic republican philosophy of environmental human rights contained within the proposed act. The concept is broader than the traditional democratic preoccupation with social legislation which insult and degrade certain ethnic and class groups by insisting that their only economic opportunity lies within government subsidies and welfare opportunities. The legislation also has potential to be expanded beyond the traditions of the design andplanning professions which emphasize land treatments near feasible markets. Instead, the proposed act provides policy incentives for industry and local governments at the site where decline and stagnation are occurring and where the redistribution of work is most needed. The legislation is elastic enough to allow local governments to concentrate on ethnic and class groups through location of work opportunities at the neterprise zone site, and through environmental-land development strategies which concentrate on a focus area. Moreover, it provides the broad framework in which planning and design solutions are initiated by local authorities rather than the federal government.

Municipal Incentives, Municipal Self-Reliance and Management Integration of Enterprise Zones

During the twenty-year period between 1960 and 1980, the federal government increased its control over local affairs by formulation of centralized regulatory agencies, increasing social programs and the establishment of revenue sharing formulas. Cnetralized management of national government functions during this period resulted in decreased municipal initiatives and limited involvement by local governments in establishment of national agendas; the loss of self-control by local communities over economic-human affairs; and a rapid decline of the urban scene. In large instances, the greatest and most negative impacts occurred in cities now managed by Black mayors.

The Enterprise Zone Employment and Development Act encourages integration and coordination of economic social and cultural functions at the local level and provides the necessary policy tools for municipal governments to initiate efforts to attract industrial-commercial investors. This is achieved while providing for development of local population resources wihtin such Zones.

Provisions within the proposed Act provide for amendments to the Housing and Urban Development Act to "Promote the coordination of all federal housing, community and economic development, small business, banking, financial assistance and employment training programs." The local government, however, must agree in writing to "follow a course of action designed to reduce the various burdens borne by employers or employees in enterprise Zones." The above may be carried out utilizing the proceeds from any federal funds. In effect, the local government can now initiate programs tailored to the unique land, population and resources character of the City. Under H. R. 1955, the local taxation credits, reduction in capital gain tax rates, and reductions in gross income of trades or businesses operating in enterprise Zones. The attitude of the federal government is one of accomodation of local initiatives, rather than establishing specific program standards and regulating their implementation.

Decnetralization of government authroity in economic-human affairs, as expressed through the proposed legislation, should result in local government planning, design and management within the character and capacity of the local setting. This approach amounts to establishment of economic self-reliant municipalities which are less compliant and dependent on federal programs or federal revenue. Rather, each participating city will organize its local resources and values for investment purpose and for greater yeild in revenue. The participating municipality initiates the efforts, relies on its internal values coupled with federal incentives, and integrates the management of such into an economic recovery strategy. However, the basic achievement of the legislation will be to extend the operations of self-reliance to the individual level. Unemployed groups and populations which lack control over the work and living environments of the community should be especially benefitted. Within the legislation, skilled work is viewed as the primary process for determining the urban condition and the main resource for unemployed groups to tain influence over the social and physical environments. Self-reliance and self-control are the fundamental variables of the legislation integrated by local government management. The legislation should be viewed as the first step in the evolutionary process of providing local governments with the tools and resources for self-regulation and self-control of the Economic and Social environments of their communities.

Municipal Self-Reliance and Economic Recovery Techniques

After years of conflict and disputes between environmentalist and development interest, we see the beginning of a potential resolution between the above parties with H. R. 1955. In order to effectively implement the Enterprise Zone Employment and Development Act, the rights of people, the rights of the environment and the rights of developers must centralize with a single purpose; to provide revenue yields which allow distressed local governments to exercise self-regulation and self-control over internal and external affairs of their settlement and jurisdictions.

Although the federal government provides the primary incentives for commercial-industrial investments, certain secondary considerations are also expressed. Specifically, the proposed law will not realize its potential unless the local ecology is organized for both conservation and development.

Planning the American landscape to maximize human and economic benefits has been an obvious deficit in U. S. planning and design programs. We are forced by the very nature of the proposed law to establish an investment system for cities which rely totally on the conservation and preservation of local values while developing and expanding those features which are attractive to development interests.

Municipal self-reliance and the techniques of economic recovery can find new meaning with the establishment of specialized zones for preservation, conservation, clearance, zoning adjustments, rehabilitation, and the location of business and industry to fit within the above pattern.

The Need for University Research and Public Service Incentives Within Enterprise Zones

One of the greatest resources in the United States for coordination of enterprise zones is the research teaching and public service programs of the varied college and university systems. The U.S. Government has invested billions of dollars in grants, contracts, scholarships, fellowships and lectureships in our college and university systems. In many instances, support for research, teaching and public services was provided to benefit directly the American Public. The Urban Jobs and Enterprise Zone Act, if properly structured, could serve as a major thrust for greater university involvement in applied and basic research in the areas of design, planning andmanagement of human settlements and enterprise zones.

I therefore recommend that H. R. 1955 be redrawn to include incentives for university and college involvement in enterprise zones. Specifically, I am recommending that all areas which receive the status of an enterprise zone be allowed to establish multidisciplinary, multiprofessional Institutes of Science and Technology, which has as their basic purpose enterprise zone research, teaching and public services. The institutes are not conceived as permanent or fixed operations of the university, but should be organized to assist local commun ities to develop knowledge, or solve problems of a particular nature related to enterprise zones. The public services and research should be made available to all concerned with the zones. Under certain circumstances, specialized institutes of Ethnic Science and Technology should be established to assist in the difficult problems of ethnic and cultural integration, particularly when such integration and group cooperation is vital for positive economic development. Basic problems of civil rights and human rights are issues which involve the design of work and its availability or access for certain groups. The university resource is a valuable tool to determine the circumstances and conditions under which groups that vary in motivation and life projections may establish positive economic enterprises for mutual advancement.

The establishment of an Institute of Ethnic Science and Technology at the City ofPrichard, Alabama, as an example, is a needed answer to this City's problem of limited intellectual and staff resouices and would provide the basic guidance for coordination and integration of the varied university governmental and industrial resources in enterprise zones; given the above considerations, and given the future meaning of our university systems in teaching research and public services, we recommend the following amendment to proposed Act and the creation of this new section:

Sec.___ Coordination with University Resources

1. Any local government designated an enterprise zone by the Secretary, or as acknowledged as a secondary zone, may create, in conjunction with a cooperating university, an Institute of Science and Technology to plan, design, manage and evaluate facilities, enterprise zones and to provide resources and facilities

for teaching, research and public services. However, such facilities must be a part of an established, recognized and accredited university.

2. The Institute of Science and Technology will serve as a teaching laboratory to train professionals and students to understand the dynamics of distressed communities, to mediate conflict related to distressed communities, and to establish techniques for planning, design management, and evaluation of enterprise zones.

3. Distressed communities with a large concentration of ethnic and/or minority groups may create specialized Institutes of Ethnic Science and Technology to meet the requirements of subsections one and two and to train and educate ethnic scientists and [illegible] DesIGN advocacy professionals. The above-named scientists and professional practioners will become the nation's experts in enterprise zone affairs. Under this subsection, the American Ethnic Science Society and the nation's leading planning and design experts and in conjunction with the nation's traditional Black colleges and universities, shall be involved with the Secretary to establish said institute.

4. Congress should allow the appropriation of the necessary funds to implement this subsection.

5. The Secretary should be given authority to create appropriation formulae to provide for minimal staff to be employed by the cooperating university.

The historical role of Science and Technology in American government is rooted in Article I, Section 8, of the Constitution, and gives Congress power to "...promote the progress of science and useful arts." The establishment of Institutes of Science and Technology within enterprise areas and the training of new professionals in the science and art of planning, designing, managing and evaluating enterprise zones, will be a continuation of this tradition and responsibility and has a special meaning for the ntion's Black settlements.

Establishment of Primary and Secondary Enterprise Zones

The tremendous support for enterprise zones in the United States has resulted in local governments providing examples and directions without assistance from the federal government. HOwever, this effort should be supported and acknowledged by the federal government. Also, given the emphasis by the federal government on enterprise zones as national demonstrations each community which does not participate in a primary manner (75 zones per year) should be provided with the opportunity to participate as a second zone.

The National Conference of Black Mayors recommends the following amendments to the proposed Act:

Sec.________ Secondary Enterprise Zones

1. Any city receiving federal Community Development Grant Assistance or funded assistance from the Economic Development Administration shall be eligible to establish a secondary enterprise zone.
2. Application for second enterprise zones shall be approved by the area office of H.U.D. in each state.
3. The Community Reinvestment Act is amended to read that:

   All federally regulated lenders shall be required to adopt a community reinvestment strategy for Enterprise Zones. The strategy must include a list of specific types of credit the lender makes or is prepared to extend within the Enterprise Zone. The lender shall also be reuqired to make available to the public the CRA statement, the CRA Notice and the CRA file as required under the Housing and Community Development Act of 1977 (Public Law 95-128, 12 U.S.C. 2901-2905.

Basic Limitation and Weakness of H. R. 1955

Although the fundamental purpose of the proposed legislation is to provide certain community development, employment and tax incentives for individuals and businesses in depressed areas, the Bill may be internally contradictory. The current weakness or limitation is apparent in the contradiction between tax incentives to businesses and employment.

A Systems Analysis indicates the Bill provides no safeguards against business expansion with automation and cybernation of both production and management sector organization. Our concern is how will tax incentive gains be utilized in expanding employment opportunities for individuals in enterprise zones over long rather than short period. Business and industry which establishes itself within enterprise zones and which experiences success may opt to invest in high tech processes rather than in human capital. Given the tremendous pressures to automate and cybernate certain industrial sectors, and given the economic convenience, it is my professional judgement that unemployment may increase in certain instances, due to the above realities.

It is my opinion, as both a political leader and a scientist, that the Bill as drawn, and with the proposed modifications, will result in a major contribuiton to solving municipal problems or organization, environmental design and management and human reosurces development. I look forward to assisting you with passage of the legislation and implementing its intent in the City of Prichard and through the members cities of the National Conference of Black Mayors.

I appreciate very much the opportunity to share with you my views on this subject.

Respectfully, in the Cause of the People,

MAYOR

JHS.ph

EXHIBIT I

Save the Children.

Washington Liaison Office
2101 L Street, N.W.
Suite 916
Washington, D.C. 20037
(202) 822-8426

Rec'd in office 6/21/82 @ 11^{00}a

X

June 15, 1982

The Honorable John H. Smith
Mayor
City of Prichard
Office of the Chief Executive
Post Office Box 10427
Prichard, Alabama 36610

Dear Mayor Smith:

I am pleased to inform you that Prichard has been selected as one of the five winners of the Save the Children 50th Anniversary Award to be presented at the U. S. Conference of Mayors meeting in Minneapolis next week.

The award, consisting of an engraved plaque, will be presented on June 21 at the plenary Luncheon of the U. S. Conference of Mayors. In addition, there will be a breakfast on that same morning at which we hope you will be able to present the highlights of your program to the other mayors, special guests and representatives of a number of major corporations looking for ways to support innovative human service programs.

If you have any questions, please call Jonathan Deull at (202) 822-8426. Once again, congratulations and I look forward to seeing you in Minneapolis.

With best wishes,

Sincerely,

Phyllis Dobyns

Phyllis Dobyns
Vice President for Policy Coordination

cc: Caranell B. Lott

Helping people help themselves

50 years

50th Anniversary Committee
Honorary Chairmen
The President and Mrs. Reagan

Honorary Vice Chairmen
Senator and Mrs. Claiborne Pell
Senator and Mrs. Charles Percy

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Asia
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Latin America
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1/82

Save the Children®

Public Information Department
48 Wilton Road
Westport, Conn. 06880 USA
(203) 226-7272

News Release

CONTACT: John Duell 202-822-8426
Mike Brown 612-339-4247 (after June 18)
-4269

Westport, CT, June 14....On the occasion of their 50th anniversaries, the U.S. Conference of Mayors and Save the Children, the international child assistance agency, are joining together to honor five cities that have demonstrated an outstanding commitment to the well-being of children.

The Honorable George S. Pillsbury, member of the Minnesota State Senate and the Save the Children Advisory Council, and Sally W. Pillsbury will present the awards at noon, Monday, June 21 during the Annual Awards luncheon at the 50th annual meeting of the U.S. Conference of Mayors at the Hyatt Downtown Hotel in Minneapolis, MN.

The five mayors who will be receiving the awards for their cities are: Mayor Donald L. Dear of Gardena, California; Mayor Margaret T. Hance of Phoenix, Arizona; Mayor John T. Smith of Prichard, Alabama; Mayor Theodore E. Dimauro of Springfield, Massachusetts; Mayor Lee Alexander of Syracuse, New York.

The programs to be awarded are: Gardena's comprehensive child care and human services program which trains women to be family day-care providers, and its Farmer's Market; Phoenix's Youth Commission, which has established rehabilitative youth centers and an annual Town Hall for community policy-making; Prichard's InfraCare program, which provides day-care, education and training for preschoolers, parents and others interested in early child development; Springfield's Community Health Education Council for Children and adolescents (CHECCA), which has raised public awareness of child-related

-more-

health issues throughout the community; and Syracuse's youth incentive, youth assessment and community service programs.

A breakfast will be held on Monday, June 21, at 7:30 a.m. at the Holiday Inn Downtown to honor the five award winners plus an additional 14 cities selected for special recognition because of their innovative programs for children.

Save the Children, which is celebrating its 50th anniversary this year, provides assistance through self-help projects to children and their families in five regions of the United States and in 33 countries overseas.

The Honorable George S. Pillsbury
and Sally W. Pillsbury
as members of the
50th Anniversary National Committee
are pleased to invite you
to honor the Mayors of cities
receiving the

Save the Children 50th Anniversary Awards

Monday, June 21, 1982
7:30 a.m.
Avenue 2 Room
Holiday Inn Downtown
1313 Nicollet Mall
Minneapolis

Breakfast
will be served

R.S.V.P.
Ruth Diercks
(612) 338-3873
930 Dain Tower
Minneapolis, MN 55402

50th Anniversary Awards

Save the Children 50th Anniversary Awards will be given at the 50th Annual Conference of Mayors to the mayors of five American cities that have demonstrated an outstanding commitment to the well-being of children. The winning cities in this first Awards Program have all initiated innovative and successful programs which meet children's needs through community participation while stimulating new partnerships between the public and private sectors. The Awards Program is a cooperative effort of Save the Children and the United States Conference of Mayors, both of which are celebrating their 50th Anniversaries in 1982.

Save the Children is a private, non-profit community development and child assistance agency which works to improve the quality of life of children, families and communities through self-help. Founded during the Great Depression to assist the hill people of Appalachia, Save the Children is now working in five regions of the United States and in 33 other countries. Support for Save the Children programs comes primarily from individuals, corporations and foundations.

CITY OF PRICHARD
PRICHARD, ALABAMA

MAYOR

OFFICE OF THE MAYOR

A-11/e

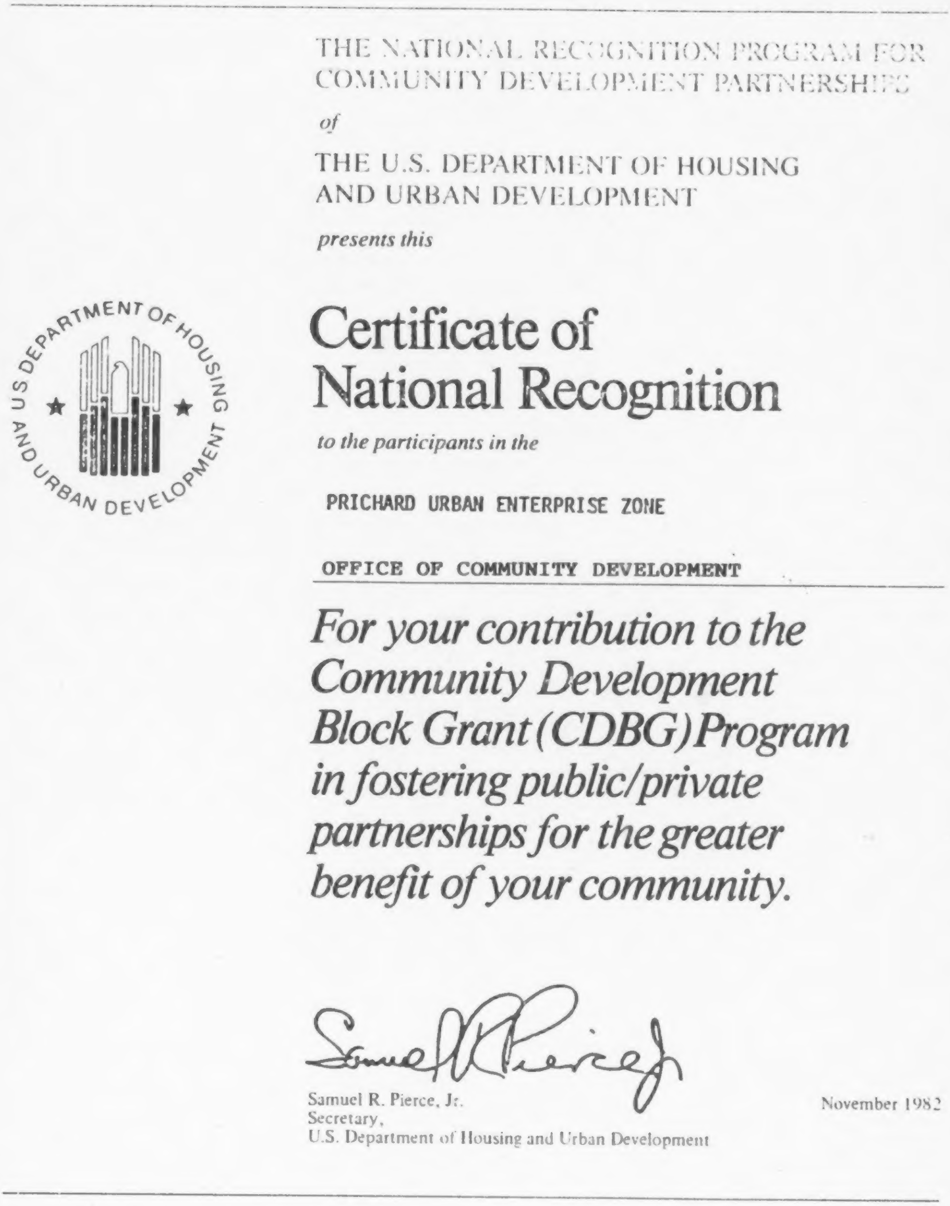
Press Release

FOR IMMEDIATE RELEASE - PRICHARD, ALABAMA - June 30, 1982

The City of Prichard is pleased to announce its receipt of the Save The Children and U. S. Conference of Mayors Fifieth Anniversary Award for demonstrating an outstanding commitment to the well-being of children. The Infra Care Community Center is organized to demonstrate a commitment on the part of the City of Prichard to the well-being of women and their children and to assure positive employment and economic benefits for their future. The Infra Care Center is unique in the United States in that it argues that child care and family care activities on the part of the woman is a wage-based activity and that women should be compensated for their efforts in this field.

The City of Prichard hopes in the next two years to have demonstrated the role o ~~Infra Care~~ Infra Care education as a model program for the United States.

EXHIBIT II



THE NATIONAL RECOGNITION PROGRAM FOR
COMMUNITY DEVELOPMENT PARTNERSHIPS

of

THE U.S. DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT

presents this

Certificate of National Recognition

to the participants in the

PRICHARD URBAN ENTERPRISE ZONE

OFFICE OF COMMUNITY DEVELOPMENT

For your contribution to the Community Development Block Grant (CDBG) Program in fostering public/private partnerships for the greater benefit of your community.

Samuel R Pierce Jr

Samuel R. Pierce, Jr.
Secretary,
U.S. Department of Housing and Urban Development

November 1982

EXHIBIT III

President
Vice President
Past Presidents
Trustees
Advisory Board
Executive Director

June 1, 1983

The Honorable John H. Smith
Mayor of the City of Pritchard
P.O. Box 10427
Pritchard, Alabama 36610

Dear Mayor Smith:

Congratulations! Your city has been selected to receive a National Award in the Sixth Annual Mayors' Awards Program.

The Awards will be announced on Monday, June 13, 1983, during the opening plenary session of the 51st Annual Conference of Mayors in Denver. A reception in honor of the winners will be held from 5:30 to 6:30 P.M., on the 13th in the Matchless Room at the Denver Marriott. At approximately 6:00 P.M., your award will be presented to you, your picture will be taken, and you will have an opportunity to say a few words if you wish.

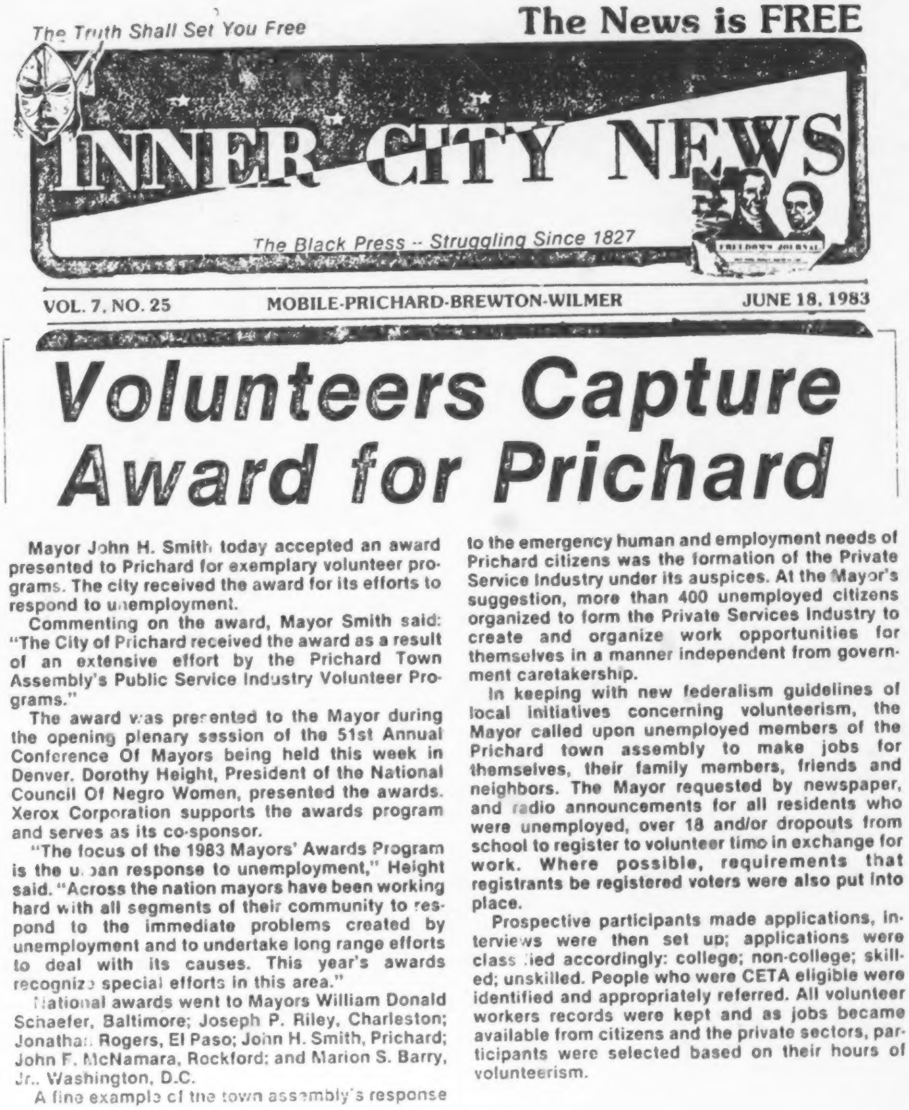
We ask that you not announce your city's award until June 13. A national press release for local use and one you can tailor are enclosed.

If you need any further information, please contact Laura DeKoven Waxman at the U.S. Conference of Mayors at (202) 293-7330. I look forward to seeing you in Denver.

Sincerely,

John J. Gunther

John J. Gunther
Executive Director



The Truth Shall Set You Free

The News is FREE

INNER CITY NEWS

The Black Press -- Struggling Since 1827

VOL. 7, NO. 25 MOBILE-PRICHARD-BREWTON-WILMER JUNE 18, 1983

Volunteers Capture Award for Prichard

Mayor John H. Smith today accepted an award presented to Prichard for exemplary volunteer programs. The city received the award for its efforts to respond to unemployment.

Commenting on the award, Mayor Smith said: "The City of Prichard received the award as a result of an extensive effort by the Prichard Town Assembly's Public Service Industry Volunteer Programs."

The award was presented to the Mayor during the opening plenary session of the 51st Annual Conference Of Mayors being held this week in Denver. Dorothy Height, President of the National Council Of Negro Women, presented the awards. Xerox Corporation supports the awards program and serves as its co-sponsor.

"The focus of the 1983 Mayors' Awards Program is the urban response to unemployment," Height said. "Across the nation mayors have been working hard with all segments of their community to respond to the immediate problems created by unemployment and to undertake long range efforts to deal with its causes. This year's awards recognize special efforts in this area."

National awards went to Mayors William Donald Schaefer, Baltimore; Joseph P. Riley, Charleston; Jonathan Rogers, El Paso; John H. Smith, Prichard; John F. McNamara, Rockford; and Marion S. Barry, Jr., Washington, D.C.

A fine example of the town assembly's response to the emergency human and employment needs of Prichard citizens was the formation of the Private Service Industry under its auspices. At the Mayor's suggestion, more than 400 unemployed citizens organized to form the Private Services Industry to create and organize work opportunities for themselves in a manner independent from government caretakership.

In keeping with new federalism guidelines of local initiatives concerning volunteerism, the Mayor called upon unemployed members of the Prichard town assembly to make jobs for themselves, their family members, friends and neighbors. The Mayor requested by newspaper, and radio announcements for all residents who were unemployed, over 18 and/or dropouts from school to register to volunteer timo in exchange for work. Where possible, requirements that registrants be registered voters were also put into place.

Prospective participants made applications, interviews were then set up; applications were classified accordingly: college; non-college; skilled; unskilled. People who were CETA eligible were identified and appropriately referred. All volunteer workers records were kept and as jobs became available from citizens and the private sectors, participants were selected based on their hours of volunteerism.

EXHIBIT IV

Congressional Record

United States
of America

PROCEEDINGS AND DEBATES OF THE 98th CONGRESS, FIRST SESSION

Vol. 129 WASHINGTON, TUESDAY, FEBRUARY 1, 1983 No. 7

SENATE STATEMENTS ON INTRODUCED BILLS AND JOINT RESOLUTIONS

By Mr. HEFLIN:

S. 345. A bill to establish a national historic park at AfricaTown, U.S.A. (Prichard and Mobile), Ala.; to the Committee on Energy and Natural Resources.

THE DESIGNATION OF AFRICATOWN, U.S.A., AS A NATIONAL HISTORIC PARK AND DISTRICT

Mr. HEFLIN. Mr. President, today I am introducing legislation for myself and for Senator Denton, which would designate AfricaTown, U.S.A. (Prichard and Mobile), Ala., as a national historic park and district. It is my understanding that Congressman Jack Edwards, of the First Congressional District of Alabama (Mobile), will be introducing a companion bill in the U.S. House of Representatives.

Mr. President, I ask unanimous consent that the statement by the distinguished junior Senator from Alabama (Mr. Denton) who is a native of Mobile, Ala., appear in the Record immediately following mine. I am told that he will enter his statement by the close of business today.

Now, Mr. President, let me point out a few salient facts about AfricaTown, U.S.A., Ala. This name AfricaTown, U.S.A., Ala., is the historical designation given to the geographical region of the landing of the last known recorded cargo of Africans imported into the United States with the intent to continue slave trading in America. The *Clotilda* reportedly landed in Mobile, Ala., in 1859, with approximately 120 Africans aboard, who settled in a northeastern section of Mobile, which later became known as AfricaTown. To date, there is no record of any convictions of the alleged pirates who brought this contraband to Mobile, Ala.

Mr. President, AfricaTown, U.S.A., Ala., is an area of exceptional significance in local, national, and international history and culture. Many years after the landing of this schooner, it is reported that AfricaTown, U.S.A., Ala., was the largest and probably the only community of pure-blooded Africans in the United States. AfricaTown, U.S.A., today exists as a living part of the Mobile and Prichard, Ala., communities.

The Congress of the United States has declared that "the spirit and direction of the Nation are founded upon and reflected in our historic heritage, and the historical and cultural foundations of the Nation should be preserved as a living part of our community life and development in order to give a sense of orientation to the American People." 16 U.S.C. 470-474.

The AfricaTown landscape as a cultural and historic resource is a living reflection of the Nation's heritage. It, therefore, must be protected and enhanced for ourselves and for our posterity. Research which documents the significance of AfricaTown, U.S.A., Ala., to peoples throughout the world has been completed, and is available for public information.

Mr. President, although the primary purpose of the legislation which I am about to introduce for myself and Senator Denton—and which Congressman Jack Edwards will introduce in the House—is to create the AfricaTown, U.S.A., Ala., National Historic Park and District, there is another purpose of equal significance. This proposed national park and district is in the heart of one of the most economically distressed areas in the United States. The present state of our national and local economies, with Alabama today ranking second in America with its exorbitant unemployment rate, must not limit our ability to continue to seek new job opportunities and carry out our basic responsibilities.

The National Park Service system stands as a great example of how we have combined the purposes of education, cultural and natural resources preservation, recreation, and leisure time into a basic international, environmental human rights model. Protecting the critical qualities of the physical environment, while meeting human needs, is a significant example of the capacity of this Nation to resolve problems while promoting opportunity. This proposed legislation is a prime example of such an opportunity. It will stress the allocation and distribution of Government values to protect the economic value of Prichard and Mobile, Ala., while providing business and employment opportunity for Alabama residents. This, in my opinion, is the real value of this bill. It is an example of the creative and innovative use of Government power to promote economic equality.

Last, Mr. President, I must point out the unique approach which has been proposed to finance creation of the AfricaTown, U.S.A., Ala., National Historic Park and District. It reverses the traditional trend of calling upon the Federal Government to be the principal financier of public facilities. The mayor of Prichard, Ala., the Progressive League, Inc., AfricaTown, U.S.A., Ala., and the citizens of AfricaTown, propose to establish a private/public sector investment partnership to fulfill an international, national, and local historic, cultural, and educational need.

It is my understanding that the private sector, in this instance, will assume the traditional role of the Federal Government. In other words, Mr. President, the Federal Government will only be called upon to finance the cost of the designation *per se* of the AfricaTown, U.S.A., Ala., National Historic Park and District, which is estimated to be around $300,000. The Progressive League, Inc., in turn, will provide and designate the sources for the acquisition of lands, construction of facilities, and maintenance and supervision of the AfricaTown, U.S.A., Ala., National Historic Park and District. This is estimated to cost around $8 million.

Mr. President, during the more than 4 years since I have been a Member of the U.S. Senate, I have never known of a cultural, educational, and historic project such as this to be financed by a ratio of 96 percent to 4 percent—96 percent or $8 million by the private sector, and 4 percent or $300,000 by the Federal Government.

Mr. President, in recognition of the importance of this historic and cultural site to the State of Alabama to this Nation, and to the world in general, Senator Denton, Congressman Edwards, and I feel that it is altogether fitting and proper that AfricaTown, U.S.A., Ala., be designated as a national historic park and district. We, therefore, urge prompt hearings on this bill by the appropriate committees and speedy passage thereof in both Chambers of Congress.

Mr. President, I ask unanimous consent that immediately following the statement of Senator Denton regarding AfricaTown, U.S.A., Ala., that the entire text of this bill be printed in the Record.

There being no objection, the bill was ordered to be printed in the Record, as follows:

S. 345

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Congress finds AfricaTown, U.S.A. (Prichard, and Mobile), Alabama, is of international importance for the people of the world—

(1) in illustrating the last recorded landing of Africans in the Western Hemisphere for the purpose of slavery; and

(2) in projecting the international commitment to Human Rights by ending slave trade.

Sec. 2. To preserve and interpret to the public the historic properties at and near AfricaTown, U.S.A. (Prichard, and Mobile), Alabama, the Secretary of the Interior (hereinafter in this Act referred to as the "Secretary") is authorized to establish the AfricaTown National Historical Park and District. The Park and District shall be comprised of those sites, building structures, objects, and natural features on or adjacent to areas that the Secretary in his discretion deems to be of cultural and historical significance. The Secretary shall establish the Park and District by publication of a notice to that effect in the Federal Register when he deems it advisable.

Sec. 3. The Secretary is authorized to acquire lands and personal property within the boundaries of the Park by donation, purchase with donated or appropriated funds, or exchange.

Sec. 4. The Secretary is authorized to enter into cooperative agreements with the owners of real and personal property within the boundaries of the Park to assist in the interpretation and preservation of those properties. These agreements shall include—

(1) a provision that the Secretary, through the National Park Service, shall have the right of access at all reasonable times to all public portions of the lands with the boundaries of the Park for the purpose of interpreting the Park to visitors;

(2) a provision that no substantive changes or alterations shall be made to the buildings, grounds, water patterns, and wetlands, except by mutual consent; and

(3) a provision that the subject matter and method of interpretation shall be determined by mutual consent.

Sec. 5. The Secretary is authorized to render financial and technical assistance to the owners of real and personal property within the boundaries of the Park to aid in the interpretation and preservation of the Park's unique historical, cultural, and natural features.

Sec. 6. The Secretary is authorized to construct on a portion of the land which he has acquired pursuant to his authority in section 3 of this Act those administrative facilities which he deems advisable, a visitors' center, museum, theatre and library for the interpretation of the historial, cultural, and natural features of the Park.

Sec. 7. The Park shall be administered by the Secretary in accordance with the Act of August 25, 1916 (39 Stat. 535; 16 U.S.C. 1,2-4), as amended and supplemented and the Act of August 21, 1935, (49 Stat. 666; 16 U.S.C. 461-467), as amended.

Sec. 8. The Secretary is authorized to enter into agreements with the Progressive League of the United States for supervision and maintenance of the Park.

Sec. 9. There are authorized to be appropriated such sums as are necessary to carry out the purpose of this Act.

NEWS
United States
Conference of Mayors
1620 Eye Street, N.W. • Washington, D.C. 20006

FOR RELEASE: May 26, 1983

For information:
Patricia Bario (301) 589-3033 or
Kay Scrimger (202) 293-7520

WASHINGTON--Prichard's AfricaTown Folk Festival has won it--and Mayor John H. Smith--national honors.

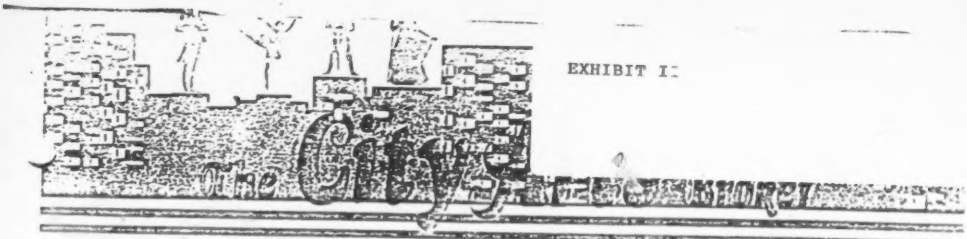
Judges in the City Livability Award contest were so impressed with ideas in the city's entry that they decided to add them to the National Clearinghouse on the Arts collection so that other cities could use them.

The Clearinghouse is part of the City Livability Award program, co-sponsored by the United States Conference of Mayors and Philip Morris Incorporated. The annual award honors cities that creatively use urban arts to improve the economic viability as well as the quality of life of their community.

The city now becomes an "example" for the nation's other cities.

The Clearinghouse staff seeks out innovative ideas of how cities can develop or fund the arts. The ideas are not only highlighted in the Clearinghouse's bi-monthly newsletter, but the staff actively calls them to the attention of mayors who may find them useful.

EXHIBIT II



Sponsored By The United States Conference of Mayors and Philip Morris Incorporated

Volume 1, No. 1 June, 1983

Mayor Winfield Moses, Jr. of Ft. Wayne Wins 1983 City Livability Award

MAYORS HARRY KINNEY OF ALBUQUERQUE AND JOSEPH RILEY OF CHARLESTON TAKE HIGH HONORS

DENVER, June 13- Mayor Winfield Moses, Jr., of Fort Wayne is the recipient of the 1983 City Livability Award. A joint project of the U. S. Conference of Mayors and Philip Morris Incorporated, the award is presented annually to the Mayor who has shown outstanding leadership in the development and support of the arts.

Vincent R. Clephas, Director of Public Affairs for Philip Morris, presented the award to Mayor Moses at the Award Luncheon on June 13 at the Annual Conference of Mayors Meeting in Denver.

In presenting the bronze medal Mr. Clephas said, "It is gratifying to have so many cities competing for recognition for their support of the arts. This is a public acknowledgement that there is an infrastructure of the spirit which must be built, maintained, and rebuilt, just as we must provide those other services which make cities livable."

Mayor Harry Kinney of Albuquerque won second place, Mayor Joseph Riley of Charleston was named the third-place winner, with five additional Mayors and their cities--Mayors Jake Godbold of Jacksonville, Henry Cisneros of San Antonio, Charles Royer of Seattle, Dianne Feinstein of San Francisco, and Wayne Corpening of Winston-Salem--cited for special innovation and creativity in their arts efforts.

The objective of the Conference of Mayors and Philip Morris in giving the award series is to encourage Mayors and their citizens to develop city policies and programs that actively support the arts, thereby making the community a more livable place to live and work. Thus, the award does not honor the intrinsic livability of an urban area but rather recognizes exemplary mayoral leadership in strengthening the arts and artists in the city.

Mayor Stephen P. Clark
of Metropolitan Dade County

- The "Art in Public Places Program;" the ordinance which provides that 1.5 percent of the construction costs of new buildings be set aside for the purchase of new art; and the county's hotel/motel tax set-aside for the art.

Mayor Richard Fulton of Nashville

- The Summer Lights Festival; Mayor Fulton's leadership of the public relations campaign to make Nashville citizens more aware of the arts; Century III, a year-long celebration of the city's 200th birthday; and the Nashville International outdoor fair.

Mayor Edward Koch of New York

- The city's method of supporting more than 30 cultural institutions in city partnerships with private, non-profit corporations; the new One Percent for Art law, which requires that one percent of the cost of city-constructed capital projects be used to acquire artwork to enhance city-owned properties.

Mayor Wallace Holland
of Pontiac

- The Mayor's outstanding success in obtaining grants from many sources to provide continued support for the city's cultural programs, including outdoor concerts, senior citizen theater groups, a community youth band, and a host of workshops.

Village President Sara Bode
of Oak Park

- Exemplary preservation efforts of the world's largest concentration of the buildings designed by architect Frank Lloyd Wright; creative financing for the purchase of the historic Anna Lloyd Wright home; and the city's Shakespeare Festival Theatre.

Mayor Richard E. Carver of Peoria

- Design of the new Civic Center, a catalyst for public and private efforts to revitalize the downtown area; and the Take Pride in Peoria Commission, which promotes the city and its image.

Mayor William Green
of Philadelphia

- Superb showcasing of the city's 300th anniversary, in particular the work of the Century IV Celebration Committee.

Mayor John H. Smith of Prichard

- Creation of the AfricaTown Folk Festival; and the Mayor's leadership in establishing an Office of Telecommunications and Cultural Affairs; the city's first Arts and Music Award to recognize local artists, and the first known application of African architecture.

Mayor W. R. Holcomb
of San Bernadino

- The role of the Mayor in saving an old theatre, an historic home, and converting a condemned auditorium into a permanent art gallery; the City Fair; and the Ethnic Festival of Lights.

Exhibit #5

Regional Hearing

October 31, 1983
9:00 a.m. - 3:30 p.m.

Conducted by

Presidential Advisory Committee on Small and Minority Business Ownership

Prichard Municipal Complex
Council Chamber

The Presidential Advisory Committee on Small and Minority Business Ownership meeting with the President, April 30, 1982.

Background

The Presidential Advisory Committee on Small and Minority Business Ownership was mandated under Public Law 95-507, October 24, 1978, and implemented under Executive Order 12190 dated February 1, 1980.

The Committee is comprised of five high-level officers from five United States businesses and five representatives from minority small businesses. All members are appointed by the President who also designates which member will serve as Chairman.

The purpose of the Committee is to assist in monitoring and encouraging the placement of subcontracts by the private sector with eligible small businesses, particularly with small minority businesses, and shall study and propose the incentives and assistance needed by the private sector to help in the training, development, and upgrading of such businesses. The Committee, through its Chairman, reports annually to the President and to the Congress on the activities of the preceding year.

The Committee Hearings in the City of Prichard represent a concern by the President of the United States for increased capital ownership among minority groups. Prichard's Enterprise Zone has attracted national attention for its approach to capital ownership development and small business and symbolizes a developing trend for planning, design, and management of investment programs in depressed regions of the country.

Dr. Lincoln Ragsdale, Chairman of the Subcommittee on Capital Ownership, and President of Valley National Life Insurance Company, is the hearing officer for the Committee and will give regional representatives of small and minority business the opportunity to discuss needs and problems associated with training, development and upgrading of minority and small business concerns. However, the fundamental purpose is to focus on incentives necessary for expansion of capital ownership among groups and within such areas as Prichard's Enterprise Zone.

PRESIDENTIAL ADVISORY COMMITTEE ON SMALL & MINORITY BUSINESS OWNERSHIP.

Mr. Alberto R. Cardenas. Esq.

Alberto R. Cardenas. Esq. - Chairman
Barron. Lehman. Cardenas and Picken
888 Brickell Avenue - Suite 200
Miami. Florida 33131

LeRoy W. Jeffries
President
LeRoy W. Jeffries & Associates. Inc.
3540 Wilshire Blvd. - Suite 816
Los Angeles. California 90010

Dr. Lincoln Johnson Ragsdale, Sr.
President
Valley Life and Casualty Insurance Co.
1140 E. Washington Street
Phoenix, Arizona 85034

Stephen Postupack
President
Northeastern Hydro-Seeding Co.
Box No. 389 - Still Creek
Tamaqua, Pennsylvania 18252

Stanley S. Scott
Vice President of Public Affairs
Philip Morris, USA
100 Park Avenue
New York, New York 10017

Lanny Fletcher Wiles
President
Northeastern Florida Foods, Inc.
704 Gilmore Street
Jacksonville, Florida 32204

Walter Larke Sorg
President
Walter Larke Sorg Associates
1625 Eye Street, N.W.
Washington, D.C. 20006

George K. Conant
Chairman and Owner
Rubelmann-Lucas, Inc.
10800 Midwest Industrial Blvd.
St. Louis, Missouri 63132

Dr. Lincoln Johnson Ragsdale, Sr.
Chairman, Subcommittee
Capital Ownership

Witnesses

Dan Alexander
Mobile County School System
Mobile, Alabama

James Barksdale
Small Business Administration
Montgomery, Alabama

William Clark
House District 98 Representative
Whistler, Alabama

Dave Delaney
First SBIC of Alabama
Mobile, Alabama

Charles Delmore
Gulf Federal Savings and Loan Association
Mobile, Alabama

Harrison Galloway
AmSouth
Mobile, Alabama

Lloyd Howard
United Minority Business Association
Montgomery, Alabama

Alpha Johnson
Commonwealth National Bank
Mobile, Alabama

Samuel L. Jones
Mobile Community Action, Inc.
Prichard, Alabama

Angela Lee
Prichard Town Assembly
Prichard, Alabama

Warner Marable
Tuskegee Lumber Company
Tuskegee, Alabama

Kwame Salter
Dane County School System
Madison, Wisconsin

Opal Smith
Private Industry Council
Mobile, Alabama

Leighon Stone
Merchants National Bank
Prichard, Alabama

Walter Underwood
Mobile Area Chamber of Commerce
Mobile, Alabama

Don Waldon
Tennessee-Tombigbee Development Authority
Columbus, Mississippi

Plez Watson
Southwest Alabama Labor Council
United Paper Works International
Mobile, Alabama

Douglas Wicks
Mobile County Commission
Mobile, Alabama

William Youngblood
Youngblood-Marx, Inc.
Mobile, Alabama

AMSOUTH

AMSOUTH

AMSOUTH

AMSOUTH

AMSOUTH

AMSOUTH

Best Wishes

YOUR MOBILE COUNTY COMMISSION

WILLIAM E. HAYS
Commissioner

DAN WILEY
President

DOUGLAS WICKS
Commissioner

No other section in the United States offers the homeseeker or investor surer returns for his money than Mobile County, Alabama. We have over 800 miles of paved county roads, making every section of the country easily accessible on paved roads.

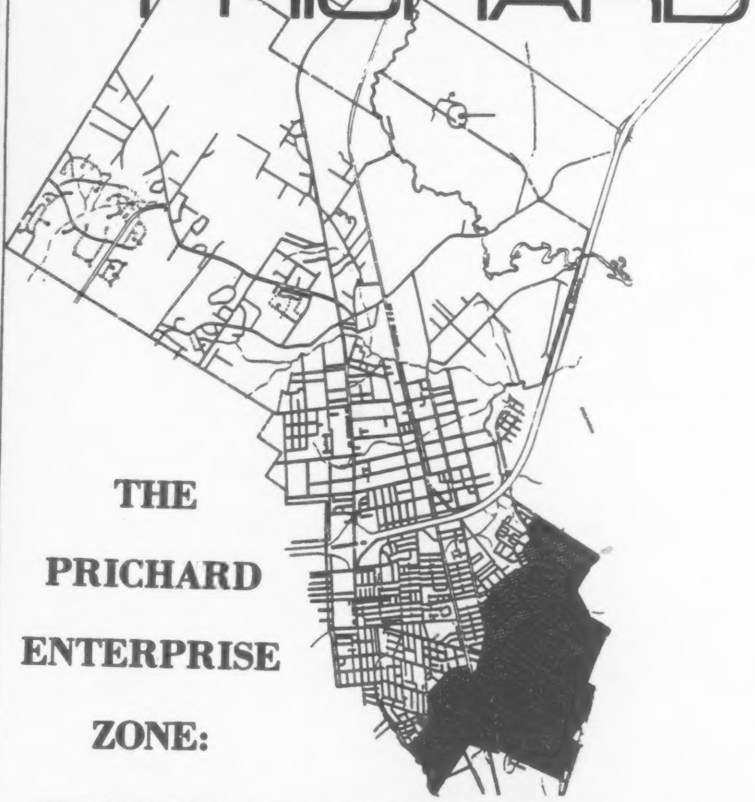
We are proud of the religious, cultural and educational advantages of our county.

Investigation and correspondence are solicited. For further information about this wonderful section, communicate with the County Commission of Mobile County.

A.E.S.S.

AMERICAN ETHNIC SCIENCE SOCIETY

THINKING PRICHARD



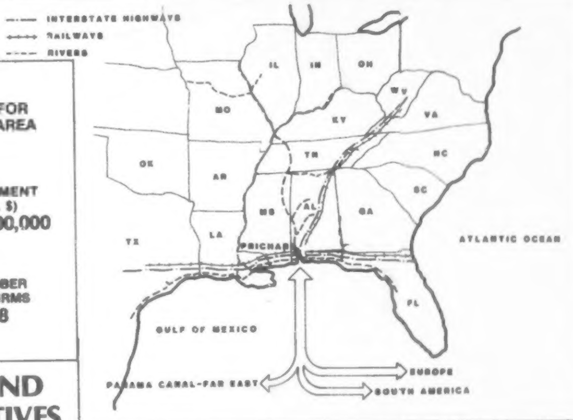
THE PRICHARD ENTERPRISE ZONE:

STRATEGIES FOR ECONOMIC RECOVERY AND INVESTMENTS FOR SMALL AND MINORITY BUSINESS ENTERPRISE

PRICHARD, ALABAMA USA
UTOPIA FOR INTERNATIONAL INDUSTRIAL ENTREPRENEURS

PRICHARD BUSINESS NEWS — MARCH 1983

THE PRICHARD ADVANTAGE



ANNOUNCED NEW INVESTMENT FOR PRICHARD/MOBILE AREA (1982)

INVESTMENT (U.S. $)
$275,000,000

NUMBER OF FIRMS
18

GRANTS AND TAX INCENTIVES

GRANTS AND TAX INCENTIVES

INDUSTRIAL DEVELOPMENT BONDS Your plant site, building, equipment, architectural costs, and legal and financing fees can be financed with Industrial Development Bonds

RIGHT-TO-WORK Alabama is a "right-to-work" state, as enacted in the legislative session of 1953.

INDUSTRIAL TRAINING PROGRAM This program is totally state funded, and has the mobility and flexibility to make it work for your specific needs. Our training program is the best you can find in any state, and those associated with it in new plant start-ups in Alabama since the program's inception prove it.

TAX LAWS ARE CUT OUT FOR BUSINESS A 1975 Legislative act provides that all materials used in production, and goods in process, are exempt from all property (inventory) tax

BUSINESS CORPORATION ACT The 1980 session of the Legislature passed the Alabama Business Corporation Act which is designed to allow Alabama to compete favorably with corporate laws of other states.

INDUSTRIAL SITE PREPARATION GRANTS Since 1965, there has been a legislation to provide State grants for industrial site preparation

ALABAMA WATER PERMIT PROGRAM.

U.S. GOVERNMENT CITES PRICHARD INDUSTRIAL THRUST

Prichard, Alabama was presented a Certificate of National Recognition for its public/private partnership efforts in community development, Clifton G. Brown, Regional Administrator for Region IV, announced recently.

The award compliments Prichard in connection with the Urban Enterprise Zone encompassing 2.3 square miles within the city's business and residential center. The zone was created to channel private and public dollars into the commercial, residential and industrial development areas.

The award program, which received top honors from President Reagan on December 9 at a ceremony at the White House, was initiated by HUD Secretary Samuel R. Pierce. It was designed to identify and encourage exceptional public/private sector partnerships. After unveiling the award, President Reagan said, "local government can solve problems better that Washington, and the idea of private industry and local government working together is as old as the nation itself."

Commenting on the award, Brown said that "Prichard exemplifies the Reagan Administration's goal of building public and private partnerships to most effectively develop America's communities."

The ultimate goal of the Urban Enterprise Zone, whicth was initiated by a city ordinance, is to create a free trade zone within the industrial area, designate a portion of waterfront as a national historic site and to stimulate economic growth within the existing street mall started under HUD's urban renewal program.

Prichard was among 100 communities throughoutt the national that was selected for its public/private partnership achievements by a non-HUD panel of development experts. The main requirement for receiving this award is that private participation had to be fostered by HUD's Community Development Block Grant funds.

Mr. Clauide Curtis, Director of the Office of Communitw Development and joint receiver of the national award with Mayor John Smith, deserves a vote of thanks for turning an ineffective depressed department of city governmemt into a viable people oriented problem solving entity. It is interesting to note the time frame involved in the "turn-around" off the department, which, was an unbelievably short two-year period. Mr. Curtis is to be congratulated for a job well done and from talking with him I learned that the best is yet to come.

Reprint: *Inner City News*
March 12, 1983

THE WHITE HOUSE
WASHINGTON

October 4, 1983

Dear Mayor Smith:

I welcome the opportunity to commend you and the citizens of Prichard, Alabama, on your celebration of the entire month of October as Small and Minority Business Development Month.

The establishment of Prichard's Urban Enterprise Zone will make available many opportunities for investment and expansion within the designated area. The importance of small business to economic recovery in the cities of America cannot be underestimated. You have taken a great step in ensuring the continued economic growth and opportunity available in your fine city.

Again, congratulations on the important steps Prichard is taking and may your special programs and conference this month be both successful and productive.

Sincerely,

Ronald Reagan

The Honorable John H. Smith
Mayor
Post Office Box 10427
Prichard, Alabama 36610

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

October 6, 1983

Mr. John H. Smith
Mayor and Chief Executive Officer
City of Prichard
Prichard, Alabama 36610

Dear Mayor Smith:

Congratulations on your efforts to involve Small and Minority Business Enterprise in the Economic Recovery Programs of your municipality, and for sponsoring this Regional Conference for the Administration to promote enterprise zone opportunities.

As the Administration's representative to your conference, I am extremely honored to participate in establishing the political-technical framework which allow small and minority business enterprises to advance within the Prichard Enterprise Zone. Your approach of working with the American Ethnic Science Society and the utilization of its scientific-technical philosophy will serve as a useful example of the role of Science and Technology to economic recovery and investment as specifically applied to small and minority enterprise planning, design and management.

We look forward to the continued leadership of your city in this area.

Sincerely,

Henry T. Wilfong, Jr.
Associate Administrator for
Minority Small Business

UNITED STATES
SMALL BUSINESS ADMINISTRATION

SOUTHEAST REGIONAL OFFICE
SUITE 502
1375 PEACHTREE ST., N.E.
ATLANTA, GEORGIA 30367

September 26, 1983

Honorable John H. Smith
Mayor
Office of the Chief Executive
P. O. Box 10427
Prichard, Alabama 36610

Dear Mayor:

Thank you for informing me of your Minority Business Technical Workshops October 17-19, 1983.

Please accept my personal congratulations to you and to the City of Prichard for scheduling the Workshops and all of the events in October. I commend you, also, for the foresight in establishing the Prichard Urban Enterprise Zone. All of these significant actions point toward economic growth for Prichard and the area.

President Reagan's New Federalism concept is being demonstrated in Prichard. We in SBA are pleased to lend a helping hand.

With best wishes and kindest personal regards.

Sincerely,

Miller Widemire
Regional Administrator

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
ATLANTA REGIONAL OFFICE
RICHARD B. RUSSELL FEDERAL BUILDING
75 SPRING STREET, S.W.
ATLANTA, GEORGIA 30303

REGION IV

October 4, 1983

Honorable John H. Smith
Mayor of Prichard
Post Office Box 10427
Prichard, Alabama 36610

Dear Mayor Smith:

I commend you for sponsoring the Technical Awareness and Business Opportunity Program for Small Business for the City of Prichard. This clearly demonstrates your commitment to helping more Americans achieve economic independence.

In addition to this very positive program, you have also designated the entire month of October as "Small and Minority Business Development Month." This, also, reaffirms your commitment to economic development.

As you know, President Reagan shares your commitment as evidenced by his December 17, 1982 statement in which he has promised to designate the first full week in October of each year as Minority Enterprise Development Week. This year it is October 2-8.

I have first hand knowledge of your untiring efforts to create new opportunities for the citizens of Prichard and to promote their welfare. If I, at the Department of Housing and Urban Development can help in any way, please give me that privilege.

With kind personal regards,

Clifton C. Brown
Regional Administrator-Regional
Housing Commissioner, 4S

JOHN H SMITH
MAYOR

Office of the Chief Executive
P. O. BOX 10427
PRICHARD, ALABAMA 36610
TELEPHONE (205) 457-3381

Dear Participants:

The City of Prichard in cooperation with the American Ethnic Science Society is honored to host this very important conference on Small and Minority Business and too provide you with a detailed concept and the process for investing in Prichard's Enterprise Zone.

Our municipality has taken the ambitious step to become a national demonstration site to establish knowledge and a technology for planning, design and management of Economic Recovery Programs and Enterprise development opportunities. Your support during this conference is important for building a stronger private sector-public sector relationship within which to implement our purpose. In addition, the Small and Minority business is the backbone for economic stability within the municipality, and we feel that it is our priority and duty to maintain your confidence and friendship.

Our focus within the Prichard Enterprise Zone and the applications of Ethnic Science knowledge to future municipal planning design and management problems of Small and Minority business enterprise is the city's commitment to advance economic and employment opportunities and to eliminate barriers which impede human and organizational self-reliance. We welcome your participation in this national experiment, and we look forward to your business and investment success story.

Respectfully, In the Cause of the People,

JOHN H. SMITH
MAYOR, CITY OF PRICHARD, ALABAMA

Small and Minority Business Enterprise Development Month: The Concept

The Small and Minority Business Development Month in the City of Prichard is organized in response to President Reagan's Executive Order establishing October 3rd thru 7th as the period to emphasize the importance of Small Business to Economic Recovery in America's cities. The fundamental purpose is to provide small and minority business in the City with an awareness of emerging opportunities in Prichard's Enterprise Zones and the available technical assistance in planning, design, and management from the Small Business Administration, Department of Housing and Urban Development, and Conventional Banking Institutions to achieve success in such areas. In addition, the program will bring together some of the Nation's leading experts in small business management and finance, including the Department of Housing and Urban Development, the leading department in President Reagan's Enterprise Zone proposal.

Specifically, the City of Prichard, in cooperation with Commonwealth National Bank, the American Ethnic Science Society, and the Prichard Chamber of Commerce, will sponsor Technical Workshops, Hearings and a Dinner during the month of October to promote Enterprise Zone economic opportunities, to discuss common problems associated with Private Sector-Public Sector relationships and to provide the President's Commission on Small and Minority Business with advice on developmental needs of Small and Minority Business in the Southeast Region.

The Small Business in the City of Prichard has always served as the backbone for employment and the source of revenue for financing municipal programs. With the establishment of Prichard's Economic Recovery and Investment Program and its emphasis on expanding the tax base, a corresponding increase and focus on small business has emerged. The concept is to retain existing small business while expanding new investment opportunities within the context of the Prichard Enterprise Zone.

Recently, Act 83676 was passed by the State of Alabama to establish Prichard's Enterprise Zones to allow a specific focus on tax incentives, deregulation of administrative procedures, public service improvements, and the establishment of the Institute of Ethnic Science and Technology. The Small and Minority Business Development Month in the City of Prichard symbolizes the continuation of the Self-Reliant Economic Movement which emerged from the strong participatory democracy and strong citizen's government which has come to symbolize Prichard's Municipality. The future of the City is dependent now on the experiment in the Enterprise Zones and the integration of Small Business, neighborhood, community organization and the Government into a positive complementary pattern of Economic, Social and Cultural Tracking. The approach is to recover the economy of the city by focusing on small business opportunities and small business characters within the Prichard landscape. Specific investment opportunities are being made available by elimination of barriers and economic-social hazards which prevent individual and organizational self-regulation through small enterprise development.

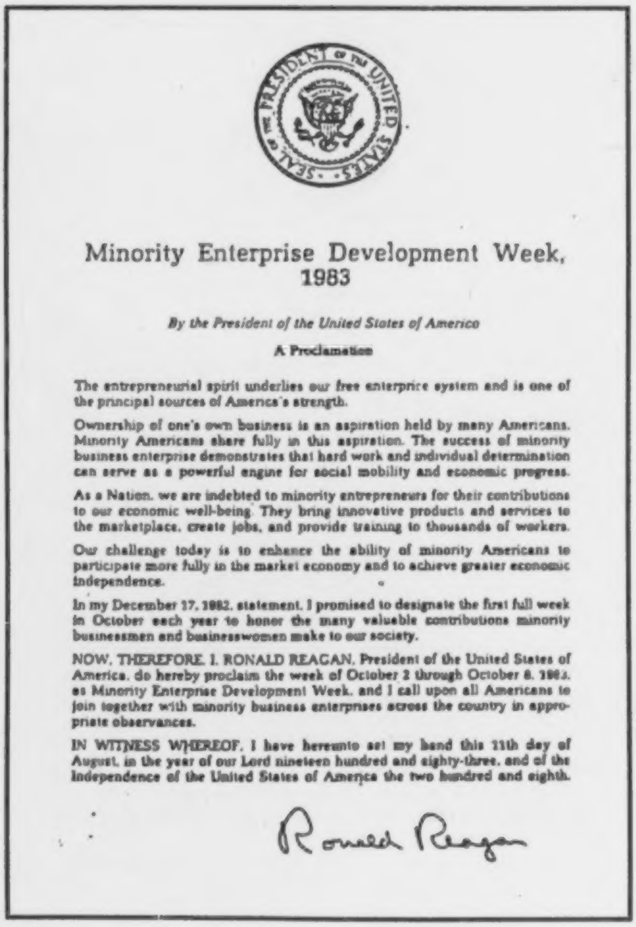
The design of employment and economic opportunities in the City of Prichard to promote small business organization and ethnic cultural advancement of both the individual and group involves a dynamic feedback process and complex network of neighborhood communities, and regional characters. Each area of the city exercises different degrees of control over the political environment, the investment financial community and market conditions and therefore, it becomes our purpose to organize Prichard's Enterprise Zones to allow small business the economic freedom to self-regulate their own economic terms and conditions.

This approach differs substantially from the affirmative action and human relations methods traditionally employed to promote Small and Minority Business Development and Capital Ownership. Instead of the Plantation System of economic support promoted by the affirmative action and human relations methods, Ethnic Science techniques of systems design and systems organization are employed to promote economic self-reliance and economic control by Small and Minority business over financial institutions, market conditions and the political organization of Prichard.

The Small and Minority Business Development Month is organized into three phases to accomplish the purpose of building awareness of Prichard's Enterprise Zones and their opportunities.

The Enterprise Zone concept and plan will be presented along with opportunities for investments in the Main Street Development Project, the Industrial Development and Foreign Trade Z one Program and the AfricaTown USA Development Project. Technical workshops on the Enterprise Zone concept and investment areas, Enterprise Zone Financing, and Hearings conducted by the President's Commission on Small and Minority Business Enterprise will be held. Also, technical procedures for Enterprise Zone financing will cover the Urban Development Action Grant process, Small Business Administration loans and loan guarantee programs, conventional financing through community reinvestment by local Banking Insititutions, and procedures for acquiring loans through the Booker T. Washington Insurance Company.

The third phase of the program will provide Small and Minority Business in the Southeast Region an opportunity to present issues and concerns before the President's Advisory Commission on Small Business Affairs and Minority Ownership. The report developed by the Commission will be presented to the President of the United States for consideration.



Minority Enterprise Development Week, 1983

By the President of the United States of America

A Proclamation

The entrepreneurial spirit underlies our free enterprise system and is one of the principal sources of America's strength.

Ownership of one's own business is an aspiration held by many Americans. Minority Americans share fully in this aspiration. The success of minority business enterprise demonstrates that hard work and individual determination can serve as a powerful engine for social mobility and economic progress.

As a Nation, we are indebted to minority entrepreneurs for their contributions to our economic well-being. They bring innovative products and services to the marketplace, create jobs, and provide training to thousands of workers.

Our challenge today is to enhance the ability of minority Americans to participate more fully in the market economy and to achieve greater economic independence.

In my December 17, 1982, statement, I promised to designate the first full week in October each year to honor the many valuable contributions minority businessmen and businesswomen make to our society.

NOW, THEREFORE, I, RONALD REAGAN, President of the United States of America, do hereby proclaim the week of October 2 through October 8, 1983, as Minority Enterprise Development Week, and I call upon all Americans to join together with minority business enterprises across the country in appropriate observances.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of August, in the year of our Lord nineteen hundred and eighty-three, and of the Independence of the United States of America the two hundred and eighth.

Ronald Reagan

Small and Minority Business Enterprise Development Workshops

for

MUNICIPALITIES
SMALL & MINORITY BUSINESSES
AND
GENERAL PUBLIC

October 17-19, 1983

City of Prichard
Mobile Community Action Building
204 East Main Street
Prichard, Alabama

PROGRAM
Small and Minority Business Month
City of Prichard

MONDAY, OCTOBER 17, 1983

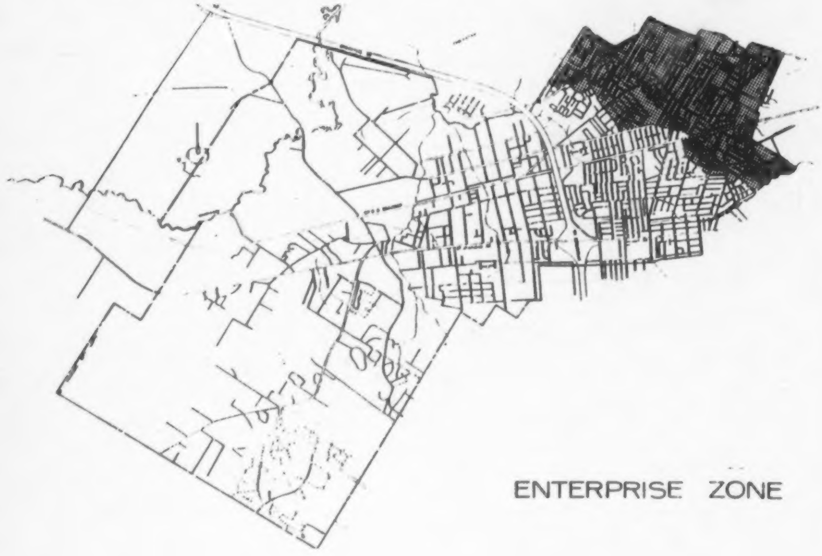
8:00 -9:00 a.m. Registration
9:00-10:00 a.m. Press Conference
Presiding: Mr. Alpha Johnson, President
Commonwealth National Bank
10:00-10:15 a.m. Welcome
Mayor John Smith
City of Prichard

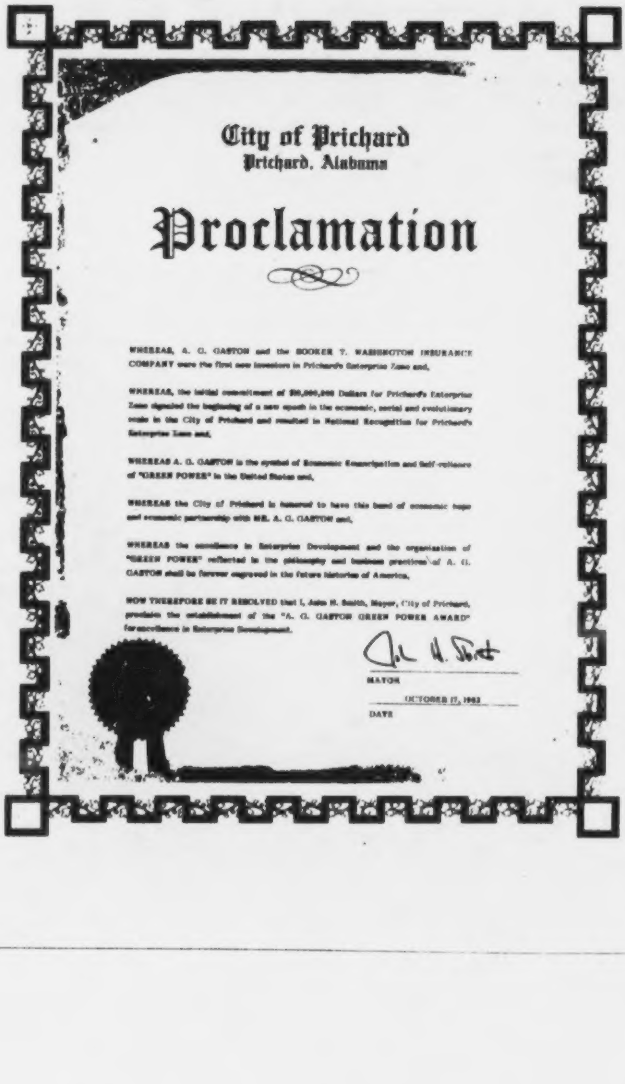
10:15
Introduction of Gulf South Minority Purchasing Council, Inc.
Mr. Johnny Austin
Branch Coordinator, Mobile, Alabama
Introduction of Mobile Business Development Center
Mr. Jim Truly
10:30-10:45 a.m.
Break
10:45-11:30 a.m.
Background and Introduction to Prichard's Enterprise
Zone Concept and Planning
Mayor John H. Smith
11:30-12:00 a.m.
Influencing the Small Business in the Enterprise Zone
Mr. Wiley Mossick, Deputy Regional Administrator
Small Business Administration, Atlanta, Georgia
12:00-1:30 p.m.
Lunch (on your own)
1:30-2:00 p.m.
Entrepreneurship and Risking Taking
Dr. John Robert E. Lee, President
Prima Corporation, Madison, Wisconsin
Mr. James C. Barksdale, District Director
Small Business Administration
Birmingham, Alabama
2:30-3:00 p.m.
Job Training and Partnership Act
Prichard Enterprise Zone
Mr. Bob Sams

Background and Introduction to Prichard Enterprise Zone

The Plan and Procedures for Urban Enterprise Zone Development in the City of Prichard is organized to implement economic recovery of land resources, conservation of positive community cultural values, preservation of structural forms and the development of human resources through expansion of employment and Small Business opportunities. The fundamental purpose of the Plan is to revitalize neighborhood small business character, supported by housing improvements and rehabilitation, street and open space enhancement and industrial-commercial development. More specifically, the plan argues the case for Prichard, Alabama, to be selected as one of the first twenty-five (25) enterprise zones in the United States.

The unique feature of the Plan is characterized by its technical approach to the dual problems of failing enterprise and minority unemployment and social isolation of the City of Prichard. The Plan emphasizes the theory, principles and systems techniques of Ethnic Science and Community Relations Practice as an emerging approach to enterprise development, environmental organization and cultural resource protection. Within this context, municipal systems design as anticipated under the authorities and responsibilities of New Federalism are organized as an innovative approach to Human Settlement Planning, Design and Management.





City of Prichard
Prichard, Alabama

Proclamation

WHEREAS, A. G. GASTON and the BOOKER T. WASHINGTON INSURANCE COMPANY were the first new investors in Prichard's Enterprise Zone and,

WHEREAS, the initial commitment of $50,000,000 Dollars for Prichard's Enterprise Zone signaled the beginning of a new epoch in the economic, social and evolutionary scale in the City of Prichard and resulted in National Recognition for Prichard's Enterprise Zone and,

WHEREAS A. G. GASTON is the symbol of Economic Emancipation and Self-reliance of "GREEN POWER" in the United States and,

WHEREAS the City of Prichard is honored to have this bond of economic hope and economic partnership with MR. A. G. GASTON and,

WHEREAS the excellence in Enterprise Development and the organization of "GREEN POWER" reflected in the philosophy and business practices of A. G. GASTON shall be forever engraved in the future histories of America,

NOW THEREFORE BE IT RESOLVED that I, John H. Smith, Mayor, City of Prichard, proclaim the establishment of the "A. G. GASTON GREEN POWER AWARD" for excellence in Enterprise Development.

MAYOR

OCTOBER 17, 1983
DATE

DR. A. G. GASTON

Henry T. Wilfong, Jr., president and owner of a Los Angeles, California, certified public accounting firm, was appointed to direct the Minority Small Business and Capital Ownership Development Program for the U.S. Small Business Administration in September, 1983.

DINNER PROGRAM

Small and Minority Business Enterprise Development Conference

Presiding	*Mr. Alpha Johnson* *Conference Chairman*
Invocation	*Rev. C.L. Kimbrough* *Prichard City Councilman*
Welcome	*Mr. Alpha Johnson*

Presentation of Head Table

Introduction of Speaker	*Mr. John H. Smith* *Mayor, City of Prichard*
SPEAKER	*MR. HENRY T. WILFONG, JR.*

Associate Administrator
U.S. Small Business Administration
Minority Business Development/Capital
Owner Development Program

Presentation of Awards	
Benediction	*Rev. C.L. Kimbrough*

PROGRAM

TUESDAY, OCTOBER 18, 1983

Enterprise Zone Development Programs

8:30-9:00 a.m. Registration

9:00 a.m.

The Main Street Program and Mass Transit
Mr. Pelham Williams, President
Williams-Russell & Johnson, Inc.
Atlanta, Georgia

10:30-10:45 a.m.

Break

10:45

Africatown Development Program
Mr. Dewey Crowder, President
Dewey Crowder Associates International
Mobile, Alabama

12:00-1:30 p.m.

Lunch (on your own)

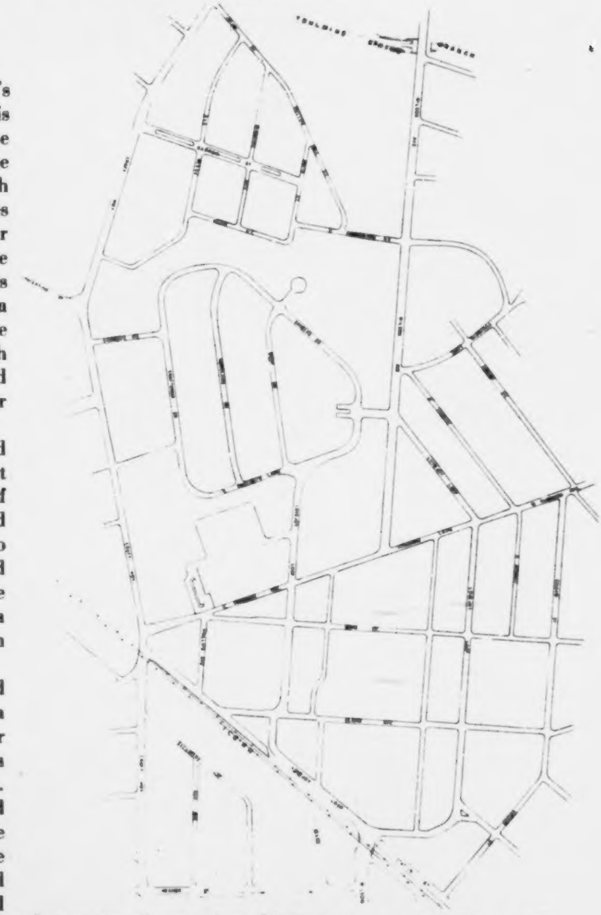
1:30-3:00 p.m.

Industrial Development and Foreign Trade
Mr. Tom Woodall, Chairman of Board
Public Systems, Inc.
Huntsville, Alabama

Mr. Sheldon Morgan, Senior Vice President
Merchants National Bank
Mobile, Alabama

Mr. Buddy Browning
Alabama State Docks
Mobile, Alabama

The Main Street Program



The City of Prichard's Main Street Program is intended to recover the down town economy of the municipality through revitalization of landscapes and building character within the enterprise district. The project is formulated to organize a comprehensive plan for the City's enterprise zone which includes mixed use and special zoning plans for phased revitalization.

This conceptual and schematic design project involves the preservation of older structures intergrated with new construction to produce a new town to old town Prichard. The downtown area has a unique history of social an

unique history of social and

physical development and a small city character uniquely blended with a multicultural population. Such features and characteristics will be utilized to establish a viable market place for cultural and recreational relaxation, scenic beauty, meeting spaces, the creation of infrastructures, including parks, streets and pathways, and the local site for the National Africatown Folk Festival sponsored by the City of Prichard.

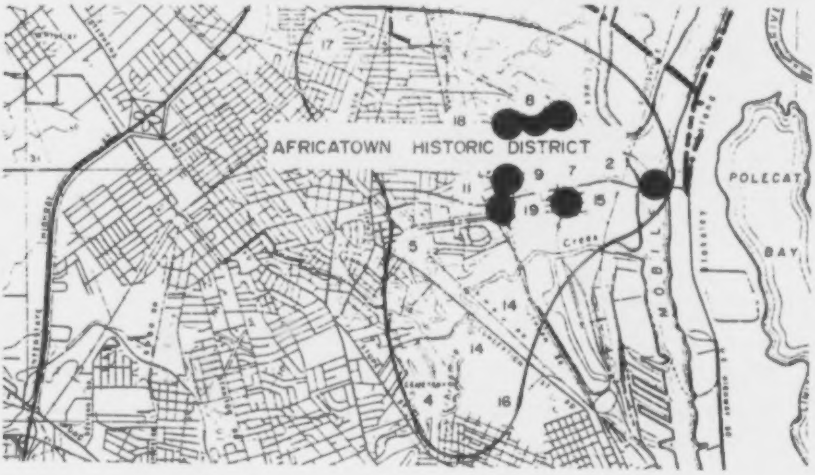
The workshop will focus on the Main Street Landscape as a feature of the enterprise zone with design details which encourage real-estate transactions and improve land values and transportation and street improvements which encourage market assessibility to the target investment site.

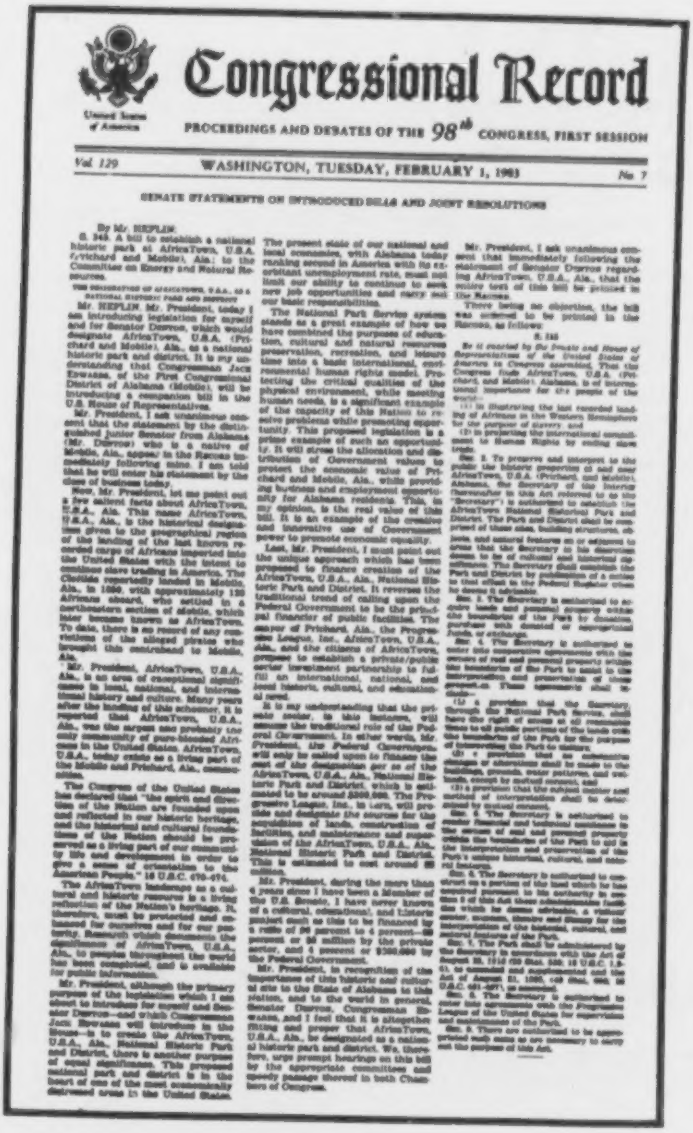
AfricaTown Development Program

The development concept and plan for AfricaTown, USA is to establish a national park and related economic magnets to support the areas exceptional history. The park will serve as an international heritage resource dedicated to both the past and future of African people, including free Africans and Africans subjected to the institution of slavery. The fundamental concept will demonstrate the applications of Ethnic Science within the context of African design and historic preservation strategies. Such applications will result in a major demonstration of how the tools of science and design technology can be applied to problems of environmental human rights.

The AfricaTown Historic Preservation Program is organized to identify, locate, protect and develop those sites, buildings, objects, structures and districts of national significance to American history and culture. Within this context the development plan for AfricaTown, USA, is to enhance the identified properties by developing commercial business centers; establishment of a museum complex for educational purposes; constructing a replica of the Clotilde and other vessels related to the AfricaTown sea experience; establishing African trade missions; providing for a national park program with scheduled tours of natural, scenic and cultural areas; construction of a restaurant which demonstrates traditional African architecture; and organization of the AfricaTown Environmental Educational Center.

Specifically, the AfricaTown, USA National Park will demonstrate the commercial value of African ethnic design and history in promoting environmental self-management and improvement, provide examples of varied market values of African and African American art, architecture, goods and services, and demonstrate their usefulness and functional merit in establishment of self-reliant economic patterns within a depressed economic environment.





United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 98th CONGRESS, FIRST SESSION

Vol. 129 WASHINGTON, TUESDAY, FEBRUARY 1, 1983 No. 7

SENATE STATEMENTS ON INTRODUCED BILLS AND JOINT RESOLUTIONS

By Mr. HEFLIN:

S. 345. A bill to establish a national historic park at AfricaTown, U.S.A. (Prichard and Mobile), Ala.; to the Committee on Energy and Natural Resources.

THE DESIGNATION OF AFRICATOWN, U.S.A., AS A NATIONAL HISTORIC PARK AND DISTRICT

Mr. HEFLIN. Mr. President, today I am introducing legislation for myself and for Senator Denton, which would designate AfricaTown, U.S.A. (Prichard and Mobile), Ala., as a national historic park and district. It is my understanding that Congressman Jack Edwards, of the First Congressional District of Alabama (Mobile), will be introducing a companion bill in the U.S. House of Representatives.

Mr. President, I ask unanimous consent that the statement by the distinguished junior Senator from Alabama (Mr. Denton) who is a native of Mobile, Ala., appear in the Record immediately following mine. I am told that he will enter his statement by the close of business today.

Now, Mr. President, let me point out a few salient facts about AfricaTown, U.S.A., Ala. This name AfricaTown, U.S.A., Ala., is the historical designation given to the geographical region of the landing of the last known recorded cargo of Africans imported into the United States with the intent to continue slave trading in America. The Clotilde reportedly landed in Mobile, Ala., in 1860, with approximately 120 Africans aboard, who settled in a northeastern section of Mobile, which later became known as AfricaTown. To date, there is no record of any convictions of the alleged pirates who brought this contraband to Mobile, Ala.

Mr. President, AfricaTown, U.S.A., Ala., is an area of exceptional significance in local, national, and international history and culture. Many years after the landing of this schooner, it is reported that AfricaTown, U.S.A., Ala., was the largest and probably the only community of pure-blooded Africans in the United States. AfricaTown, U.S.A., today exists as a living part of the Mobile and Prichard, Ala., communities.

The Congress of the United States has declared that "the spirit and direction of the Nation are founded upon and reflected in our historic heritage, and the historical and cultural foundations of the Nation should be preserved as a living part of our community life and development in order to give a sense of orientation to the American People." 16 U.S.C. 470-474.

The AfricaTown landscape as a cultural and historic resource is a living reflection of the Nation's heritage. It, therefore, must be protected and enhanced for ourselves and for our posterity. Research which documents the significance of AfricaTown, U.S.A., Ala., to peoples throughout the world has been completed, and is available for public information.

Mr. President, although the primary purpose of the legislation which I am about to introduce for myself and Senator Denton—and which Congressman Jack Edwards will introduce in the House—is to create the AfricaTown, U.S.A., Ala., National Historic Park and District, there is another purpose of equal significance. This proposed national park and district is in the heart of one of the most economically depressed areas in the United States. The present state of our national and local economies, with Alabama today ranking second in America with its exorbitant unemployment rate, must not limit our ability to continue to seek new job opportunities and carry out our basic responsibilities.

The National Park Service system stands as a great example of how we have combined the purposes of education, cultural and natural resources preservation, recreation, and leisure time into a basic international, environmental human rights model. Protecting the critical qualities of the physical environment, while meeting human needs, is a significant example of the capacity of this Nation to resolve problems while promoting opportunity. This proposed legislation is a prime example of such an opportunity. It will stress the allocation and distribution of Government values to protect the economic value of Prichard and Mobile, Ala., while providing business and employment opportunity for Alabama residents. This, in my opinion, is the real value of this bill. It is an example of the creative and innovative use of Government power to promote economic equality.

Last, Mr. President, I must point out the unique approach which has been proposed to finance creation of the AfricaTown, U.S.A., Ala., National Historic Park and District. It reverses the traditional trend of calling upon the Federal Government to be the principal financier of public facilities. The mayor of Prichard, Ala., the Progressive League, Inc., AfricaTown, U.S.A., Ala., and the citizens of AfricaTown, propose to establish a private/public sector investment partnership to fulfill an international, national, and local historic, cultural, and educational need.

It is my understanding that the private sector, in this instance, will assume the traditional role of the Federal Government. In other words, Mr. President, the Federal Government will only be called upon to finance the cost of the designation *per se* of the AfricaTown, U.S.A., Ala., National Historic Park and District, which is estimated to be around $300,000. The Progressive League, Inc., in turn, will provide and designate the sources for the acquisition of lands, construction of facilities, and maintenance and supervision of the AfricaTown, U.S.A., Ala., National Historic Park and District. This is estimated to cost around $8 million.

Mr. President, during the more than 4 years since I have been a Member of the U.S. Senate, I have never known of a cultural, educational, and historic project such as this to be financed by a ratio of 96 percent to 4 percent—96 percent or $8 million by the private sector, and 4 percent or $300,000 by the Federal Government.

Mr. President, in recognition of the importance of this historic and cultural site to the State of Alabama, to this Nation, and to the world in general, Senator Denton, Congressman Edwards, and I feel that it is altogether fitting and proper that AfricaTown, U.S.A., Ala., be designated as a national historic park and district. We, therefore, urge prompt hearings on this bill by the appropriate committees and speedy passage thereof in both Chambers of Congress.

Mr. President, I ask unanimous consent that immediately following the statement of Senator Denton regarding AfricaTown, U.S.A., Ala., that the entire text of this bill be printed in the Record.

There being no objection, the bill was ordered to be printed in the Record, as follows:

S. 345

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Congress finds AfricaTown, U.S.A. (Prichard, and Mobile), Alabama, is of international importance for the people of the world—

(1) in illustrating the last recorded landing of Africans in the Western Hemisphere for the purpose of slavery, and

(2) in projecting the international commitment to Human Rights by ending slave trade.

Sec. 2. To preserve and interpret to the public the historic properties in and near AfricaTown, U.S.A. (Prichard, and Mobile), Alabama, the Secretary of the Interior (hereinafter in this Act referred to as the "Secretary") is authorized to establish the AfricaTown National Historical Park and District. The Park and District shall be comprised of those sites, building structures, objects and natural features on or adjacent to areas that the Secretary in his discretion deems to be of cultural and historical significance. The Secretary shall establish the Park and District by publication of a notice to that effect in the Federal Register when he deems it advisable.

Sec. 3. The Secretary is authorized to acquire lands and personal property within the boundaries of the Park by donation, purchase with donated or appropriated funds, or exchange.

Sec. 4. The Secretary is authorized to enter into cooperative agreements with the owners of real and personal property within the boundaries of the Park to assist in the interpretation and preservation of those properties. These agreements shall include—

(1) a provision that the Secretary, through the National Park Service, shall have the right of access at all reasonable times to all public portions of the lands within the boundaries of the Park for the purpose of interpreting the Park to visitors,

(2) a provision that no substantive changes or alterations shall be made to the buildings, grounds, water patterns, and wetlands, except by mutual consent, and

(3) a provision that the subject matter and method of interpretation shall be determined by mutual consent.

Sec. 5. The Secretary is authorized to render financial and technical assistance to the owners of real and personal property within the boundaries of the Park to aid in the interpretation and preservation of the Park's unique historical, cultural, and natural features.

Sec. 6. The Secretary is authorized to construct on a portion of the land which he has acquired pursuant to his authority in section 3 of this Act those administrative facilities which he deems advisable, a visitors center, museum, theatre and library for the interpretation of the historical, cultural, and natural features of the Park.

Sec. 7. The Park shall be administered by the Secretary in accordance with the Act of August 25, 1916 (39 Stat. 535; 16 U.S.C. 1-4), as amended and supplemented and the Act of August 21, 1935, (49 Stat. 666; 16 U.S.C. 461-467), as amended.

Sec. 8. The Secretary is authorized to enter into agreements with the Progressive League of the United States for supervision and maintenance of the Park.

Sec. 9. There are authorized to be appropriated such sums as are necessary to carry out the purposes of this Act.

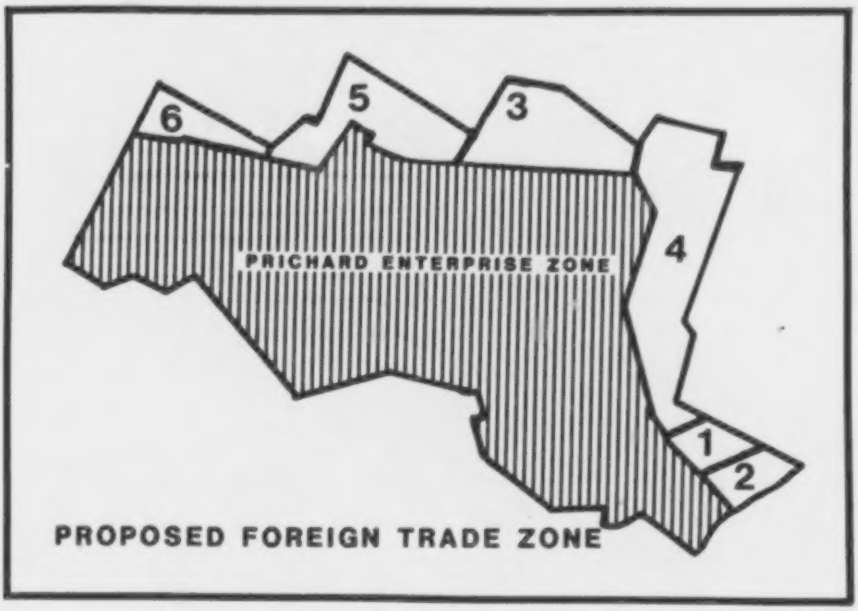
Foreign Trade and Industrial Development Program

Foreign or "free" trade zones are proposed secured areas in the City of Prichard which are considered the nation's customs teritory. Their purpose is to attract and promote international trade and commerce.

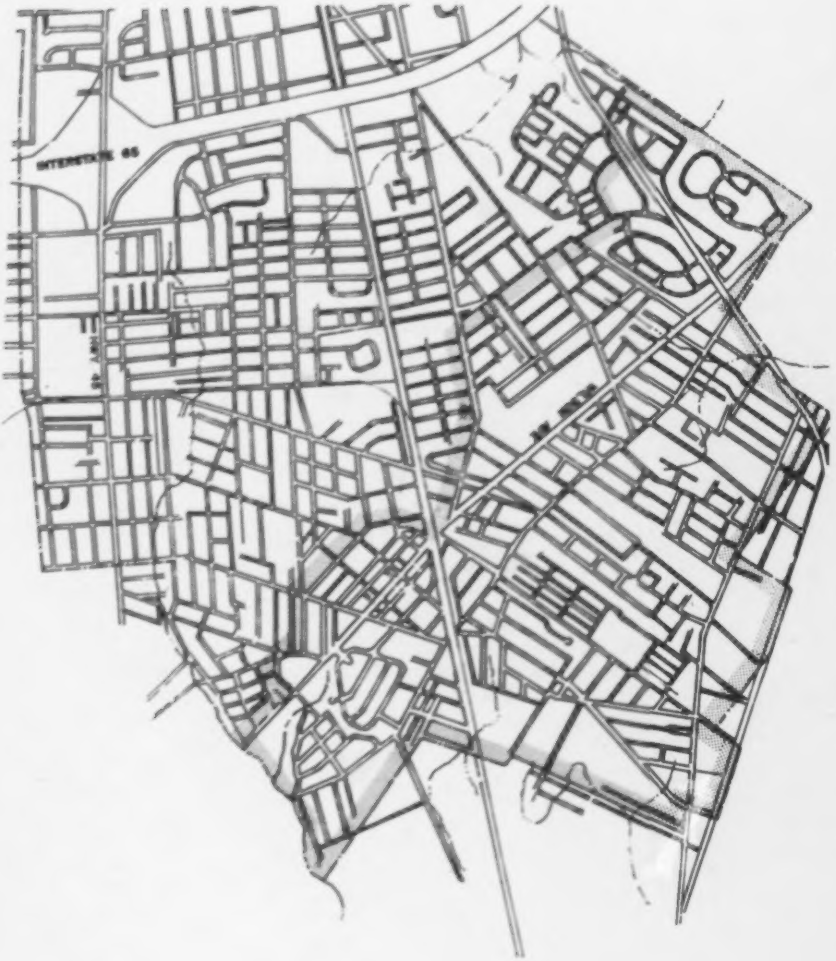
Although free trade is an ancient concept, free trade zones did not develop until the 19th century. The success of free trade zones in northern Europe, notabliy the "free port" of Hamburg, stimulated American interest which culminated in the passage of the Foreign Trade Zones ACt of 1934 and the amendment of this Act in 1950.

The Foreign Trade and Industrial Development Zones will be operated as a public utilities by the city chartered for the purpose.

Foreign Trade and Industrial Development Zones in the City of Prichard are interrelated ideas and programs organized to provide advantages and opportunities for Small and Minority Business Investors with interest in the Tom-Big-Bee Water Way Development and the Alabama State Docks programs in Foreign and Industrial Trade.



Foreign Trade and Industrial Development Zone



INTERSTATE 65

PROGRAM

WEDNESDAY, OCTOBER 19, 1983

Enterprise Zone Financing

8:30-9:00 a.m. Registration

9:00-10:30 a.m.

Urban Development Action Grant Program
Mr. Robert Lunsford, Acting Director
Community Planning and Development
Division of Housing & Urban Development
Birmingham, Alabama

10:30-10:45 a.m.

Break

10:45-12:00

U.S. Small Business Administration
Mr. James Barksdale, District Director
U.S. Small Business Administration
Birmingham, Alabama

12:00-1:30 p.m.

Lunch (on your own)

1:30-2:45 p.m.

Conventional Investments
Mr. Harrison Galloway, Assistant Vice President
American National Bank
Mobile, Alabama

Mr. Leighon Stone, President
Merchants National Bank
Prichard, Alabama

Mr. Alpha Johnson, President
Commonwealth National Bank
Mobile, Alabama

2:45-3:00 p.m.

Break

3:00-3:45 p.m.

Booker T. Washington

4:00-5:00 p.m.

Reception
Municipal Complex
Prichard, Alabama

Enterprise Zone Financing

Enterprise Zone Financing involved four levels of relationships currently organized within the Prichard Enterprise Zone System. 1) Urban Development Action Grants, 2) S.B.A. Loans and Loan Guarantee Programs, 3) The Community Reinvestment Program through local banks and financial institutions and, 4) A $10,000,000.00 loan pool available through the Booker T. Washington Insurance Company. The fundamental purpose of the program is to encourage new and increased investments through Financial Assistance and Technical Investment Assistance within the enterprise zone.

The workshop on Enterprise Zone Financing is organized to inform conference participants of opportunities to finance small and minority Business Enterprises, policies governing such opportunities and procedures for obtaining assistance. The Small Business Administration, Commonwealth National Bank, Merchants National, American National Bank, and Colonial Bank will direct the workshop emphasizing community reinvestment policies and procedures, small and minority business development programs and technical assistance and their particular institutions' role in the Prichard Enterprise Zone.

Taylor Hodge, A. G. Gaston, and Mayor Smith.

Regional Hearing

October 31, 1983
9:00 a.m. - 3:30 p.m.

Conducted by

Presidential Advisory Committee
on
Small and Minority
Business Ownership

Prichard Municipal Complex
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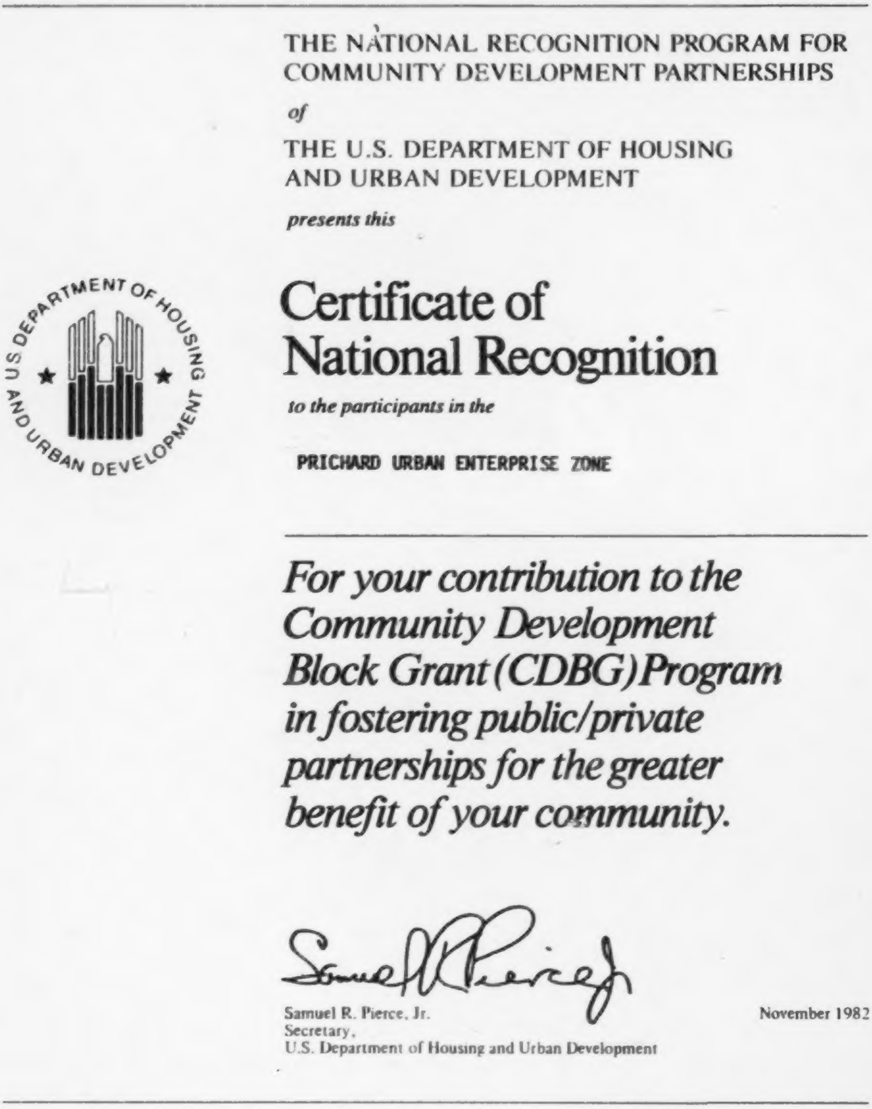

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to the participants in the

PRICHARD URBAN ENTERPRISE ZONE

For your contribution to the Community Development Block Grant (CDBG) Program in fostering public/private partnerships for the greater benefit of your community.

Samuel R. Pierce, Jr.
Secretary,
U.S. Department of Housing and Urban Development

November 1982

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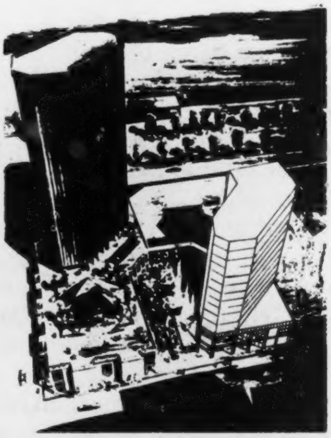

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Mr. ANTHONY. Thank you very much, Mayor Smith.

Mr. Flippo and I sit side by side in the front. He has reminded me many times that his congressional district still has one of the highest unemployment rates in the United States, although there is some economic recovery showing up in some areas. I represent 23 counties in south Arkansas. I cosponsored a piece of legislation with the Rural Caucus basically talking about enterprise zoning from a rural standpoint. Mr. Rangel and others were talking about it from an urban standpoint. I think it is good that we were able to blend both rural and urban areas into one piece of legislation.

My basic question is this: Knowing that your area is much more compact, do you see any problems or have you any experiences that you could share with us in regard to rural zones?

Lieutenant Governor Mutz.

Mr. MUTZ. To be candid with you, I had expected more rural applications than we received in Indiana, because the facts are that there are some severe pockets of unemployment and low personal income data in our southern Indiana area. We have one attractive rural application which is in essence a diversification of farms in a given area together with the potential development of a distribution system for new crops and a processing operation for those crops. Our idea there was to use the incentives to make those things happen in an area in which the availability of capital and so forth is restricted and personal incomes are down. One of the problems that we have there is describing the geographical unit. When you get into the urban areas I am not saying it is easy, but it is easier than when you get into a rural area when you try to bring that group of people who may be more sparsely located. We have one good application in Indiana among the 13.

Mr. ANTHONY. You mentioned that it takes such strong cooperation from everyone, and you stressed that in order to be successful, it requires a mutual effort from a lot of interest groups. When you spread that out amongst the rural areas, then you run into a lack of depth, expertise, and knowledge. I must admit that I am keenly disappointed in the general response of a lot of my rural areas in making application under the existing laws that we presently have that would attempt to overcome some of the economic depressed conditions that they suffer under. A classic example is the most recent job stimulation bill that we passed. I only had one good application out of the entire 23 counties that was submitted and was passed. I must admit that I personally have some real concerns about how it is going to apply in the rural areas. It seems like the urban fellows are far more advanced and ahead of us. We need your help.

Mr. MUTZ. In the area where we had got our land-grant college to do some research for us to study the feasibility of this thing, then we got the agriculture extension agent, who is part of that land-grant college system to organize the people in that community, the next meeting is on December 1 when we will be meeting again to hopefully wrap up the commitments. If it had not been for the agriculture extension agent who has that ability to reach out into these areas, I doubt if we would have been able to put this in place. He was the key ingredient.

Mr. **Anthony**. Would it be asking too much of you to send us back a short summary——

Mr. **Mutz**. Yes; I do not have a copy with me.

Mr. **Anthony**. I understand. Maybe we could add it as an addendum to your testimony.

[The information follows:]

DESIGNATION OF RURAL ENTERPRISE ZONES, MARCH 23, 1984, BY LT. GOV. JOHN M. MUTZ, COMMISSIONER OF AGRICULTURE, STATE OF INDIANA

In accordance with the Rural Development Policy Act of 1980, Agriculture Secretary Block has submitted to Congress a rural development strategy as recommended by the National Advisory Council on Rural Development. In this recommendation, special incentives were proposed for the development of Rural Enterprise Zones. More specifically, it was recommended that one-third of the seventy-five enterprise zones to be established at the national level be allocated as Rural Enterprise Zones. In addition to the normal federal incentives for job producers to locate in these enterprise zones, it was proposed that the Rural Enterprise Zones have exemption from capital gains taxes on the zone property and have federal government guarantees on industrial development bonds for small businesses locating in these zones.

We strongly support this recommendation and urge Congress to give serious consideration to the proposed special incentives for rural economic development. We believe that such incentives will greatly assist in the development of value added industry in the rural sector, and provide for the long-term economic viability of agriculture in America. Further, such incentives would strengthen and enhance state level economic development initiatives.

[From the Knox County (Ind.) Daily News]

MUTZ COMMITS FINANCIAL ASSISTANCE TO AREA MELON, VEGETABLE GROWERS

(By Judy Miller)

Showing enthusiastic support for a plan to centrally market southwest Indiana produce, Lt. Gov. John Mutz yesterday committed "substantial financial assistance" to area melon and vegetable growers.

But to be successful, one question has to be answered. With stiff competition among growers, will they be willing to formally commit themselves to cooperatively participate in one common market?

About 80 persons met at Vincennes University to hear a proposal to the second goal as outlined by the newly formed Southwestern Indiana Vegetable and Melon Growers. The first objective was discussed at a meeting last month, dealing with melon growth problems, namely pollution control.

Bob Wonning, president of the association, began the one and one-half our session emphasizing the need for a better marketing facility for area producers.

"We have an advantage in our growing area, and know there is a definite market for the produce. Besides the potential for an extended season because of climate, there are six weeks between when southern area producers' season declines before the northern area begins."

He estimated 5,000 acres of canteloupe and watermelon are grown in a region including Knox, Daviess, Gibson, Posey and Sullivan counties.

"With proper facilities to package and market our produce to grocery chains, we can expand our acreage and a lot of other crops commercially to lean the way the market wants," Wonning said.

What is needed, he explained, is a hydro-cooling system and storage facility for all but watermelon crops. Watermelon does not need refrigeration, he added.

Presently, canteloupe growers pick their crop prior to maturity to ship to a distant state or Indianapolis market. Wabash Coffee which markets some local produce cannot handle much expansion either unless it is packaged better, he said.

Since the farmers group was formed last December, subcommittees have been exploring the marketing potential and financial feasibility of a local storage facility. Among research being performed is a survey of numerous grocery chains, Joe Vieck, chairman of the marketing sub-committee, explained.

Besides seeking their support as prospective buyers, Vieck said information is being obtained concerning costs of present produce from the western states and packaging techniques.

"Prospective buyers stressed the need for coolers," he added. "It is very interesting to hear their (grocers') comments, and there is an enthusiasm that Indiana melons outsell any other."

Vieck also said there are between 26 and 28 different vegetables grown in volume in Knox County.

Describing a specific marketing and storage center was Laura Hoffman, a Purdue University marketing economist.

Such a facility, she said, would meet combined requirements of a retail market to solve the problem of a central location and answer questions concerning grading, packaging and shipping.

She proposed a building between 8,000 and 10,000 square feet with two or three packing lines, for melons and other multi-crops, including Irish potatoes, sweet corn and squash. In addition, the structure could handle three cooling rooms and a freezer to store produce until it is shipped.

Hoffman projected the storehouse could handle 15,000 to 30,000 tons of produce each season. And, considering cooling devices, seasons could be extended four to six months. Different crops could realistically be marketed out of the center year-round.

The center would cost $1 to $2 million, a substantial sum for the area, she noted. But Indiana growers can't afford retail markets if they don't have the capability for volume or standardization.

The answer to marketing problem is a solution for the current problem. Expand acreage for incentive and it will contribute to the economic welfare of the area, Hoffman concluded.

Representing interested marketing firms were Fred Mills of Maplehurst (dairy) Farms in Indianapolis and Jack Waters, produce buyer with E. Bierhaus & Sons and Wabash Coffee Inc. of Vincennes.

"We receive produce from all over—the Midwest, California, Mexico, Colorado—and these regions can't grow any better produce than Indiana," Waters commented. "They've only out-marketed and out-merchandised us."

He expressed whole support for one central location, and capability of extending type and number of crops grown here. He repeated Hoffman's emphasis on lengthening the marketing season, and acknowledged profit could only be made with year-round sales.

A centralized packing facility properly operated needs strong sales to proceed, Waters said. An industrial park would be an ideal site with easy access to water and major highways, he noted, adding land is available.

With the success of a storehouse, other food-related industries would be attracted, Waters noted. Besides processors, there could be a need for additional packing plants and expansion of farm equipment for unique vegetable production, such as greenhouses, and all would generate more employment.

Mutz estimated the project may provide as many as 300 jobs. The potential growth would lend self-sufficiency and make good economic sense, he said, besides improving present productivity.

In addition to the number of potential employees, there could be $1 to $2 million added to the local tax base. The operation could gross $3.6 to $5.4 million, resulting in $3,300 to $3,600 an acre.

"It's pretty exciting," he commented, adding the state is prepared to appropriate funds to get the project underway.

The Dept. of Commerce thinks this is the perfect example of what such a business proposition can do for Hoosiers, Mutz said. To develop a good marketing plan will take money, he added, hoping this part of the project can be completed before next spring.

The Dept. of Commerce has other resources available to lend its assistance, Mutz said, listing aid to provide sewer and water to the property, guaranteeing low-interest loans up to $10 million if needed and providing Vincennes with an Indiana Investment Incentive grant equalling 10 percent of the total new capital investment.

Individually, producers can receive financial assistance, he said, including tax exempt loans at 3.5 points lower than the lowest interest rate. But the program which would lend up to $1 million per farm for capital and land investment is limited, he explained.

About 40 percent of Indiana's farmers would qualify under the loan program limited to those age 40 or younger, who have a net worth of $200,000 or less and been farming on their own for five years or less.

"Whoever builds the center will need firm commitment from growers. That is the key ingredient to make it work."

Mr. VOINOVICH. I might suggest, I am a former Lieutenant Governor of the State of Ohio, that State government, if this kind of legislation does pass, would in all probability bring together some people and talk to them about this legislation, and what you have to do in order to take advantage of it and you might start getting some of this activity that you have not seen before, because even large cities have to go to conferences and talk to people and have folks that have had some experience share that with them in order to get started in this business. I think that is part of it, that we have so many areas throughout Ohio and I know other States, where people want to help themselves and do not know how and traditionally State government has not really been involved. With this kind of legislation and the States getting involved in the picture we may see more initiative coming out of our State capital to try to get folks together and see if they cannot do something about their condition.

Mr. ANTHONY. Thank you very much.

Mr. Jacobs, do you have any questions?

Mr. JACOBS. Just one question for the Governor.

Governor Mutz, which do you consider more important in the general scheme of enterprise zones, the exemption from taxation or exemption from the wage and hour laws or the other exemptions that have been discussed?

Mr. MUTZ. Congressman, if I had to choose between those two things, the exemption from taxation is the biggest incentive because it helps make up that financial difference between putting a plant in the cornfield and putting a plant in asssisting urban area that needs to be revitalized.

But neither one of those are nearly as important as the commitment that the local community makes to this thing. It doesn't do any good to have incentives of any kind unless the investor is assured that when he invests, their basic services will be there: police protection, fire protection, sewer, water, that kind of stuff. If they are not there, it isn't going to happen anyway.

Mr. JACOBS. Thank you. That is all, Mr. Chairman.

Mr. ANTHONY. Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman.

I want to thank the panel. I am sorry we don't have more members here, but we have kind of split up in three different groups today, and there is action on the floor.

May I ask you, do you expect the proposal to any significant extent to have the effect of moving jobs from one area across the line into an enterprise zone?

Mr. MUTZ. Well, I will comment and say that we have a prohibition in our State law against that activity, and it was necessary to include that in our State law to overcome some opposition from those who originally opposed it but who later supported it. I am talking about organized labor and some environmental groups.

Mr. **Duncan**. Do you have people that are not in the zone but on the border that think they might be in a competitive disadvantage by reason they are not in the zone?

Mr. **Mutz**. I am sure we will have that problem. The model cities program had that problem, and I am sure we will have it.

Mr. **Duncan**. Any of the others care to make a statement?

Mr. **Voinovich**. I suspect if they are not competing, you won't have a problem, but if you have one on the edge and has a competitor within the zone, you will have problems just as where you have tax abatement granted a particular endeavor and there are others there who feel they are treated unfairly because of it.

Mr. **Duncan**. Thank you very much. Thank you, Mr. Chairman.

Mr. **Voinovich**. Could I make one other point?

Mr. **Duncan**. Yes, sir.

Mr. **Anthony**. Yes.

Mr. **Voinovich**. We are here talking about targeting incentives to specific areas that are depressed. I am a little concerned about your restrictions on IDB's. I just want to throw that out on the table. You have this $150 cap, and it looks like it will be a shotgun across the board without targeting of money into areas where it is most needed. I am concerned that what we are trying to do here, even if you do pass this legislation, you may undo it with some, I think, unreasonable restrictions on industrial revenue bonds.

I thought we got into the program in the first place to target special areas. Now it looks like it is a nationwide program. If you are really interested in saving the taxpayers' money, you ought to look at the program and say, "Why did we get into it in the first place," and get it back to where it began, and that is to target areas that need it so that we can see economic development occur in those areas that really need it.

Mr. **Duncan**. I yield to Mr. Rangel.

Mr. **Anthony**. There will be a very interesting debate on the House floor before the day is over, and I have a feeling it will be one of the hotter topics. Mr. Pickle has a saying he uses in these circumstances, "It is going to be hotter than a burning stump." Todd and Tom, there will be a lot of talk on the floor.

Mr. Rangel.

Mr. **Rangel**. Thank you.

I want to thank the mayors for their enthusiastic support of what I hope is the concept rather than the bill. Most of you, I think are really saying that it is great in concept, but it should go further.

Is there anyone that is perfectly content with the bill in its present form?

Mr. **Smith**. Congressman, we could design it if we had enough time to perfection, I guess. None of us see any idealism in it. We see it as a start. It begins a process. If it is truly an experiment, we should have an amount of time to come back and make the necessary adjustments to say what works and what does not work.

Anything we project here, other than the fact that we will get behind and work toward seeing it happens, is pure speculation. None of us have any crystal ball.

Mr. **Rangel**. My colleague, Mr. Anthony, was saying that he thought the urban communities were so much more advanced in preparing for this concept, but I have said to many while the mike was off that we are talking about eight rural areas, what is the problem? Eight rural areas this year, 25 over a 3-year period. What is there to be ready for? It's nothing.

It just seems to me, Mayor Smith, and you said somewhere in your testimony, that we are talking about the hopes and aspirations of people if we pass something. That is my main concern with this bill, that with over 3,000 areas eligible to be designated and with 25 rural over the length of the bill, 75 communities altogether being designated. I know that Mayor Voinovich knows that because of the great work that he has done in Cleveland, he knows he is going to be designated as an area. He knows that.

But I am thinking about the other communities that will see this little parade, this experiment, passing them by. It just seems to me—and I use the example that if you take the distressed communities, and I am learning more and more about the rural problems, and picture them as an intensive care unit, the doctor is going to walk through and just select a handful of those patients that are strong enough to receive his medical attention and then they will be designated. But for the rest of the patients, where is all this hope?

I don't know what kind of city Prichard is, but it is hard for me to imagine that you as mayor are saying that, well, they passed us by, but we have hopes that in the future——

Mr. **Smith**. No, no, I don't intend to see that that happens. I don't intend to see it and watch the experiment while we sort of wave a flag and it is all going well.

I think that this committee ought to consider that kind of idea if it is truly a national experiment and hope everyone participates. While everyone may not participate in a primary way, there are secondary ways. I am sure any mayor that perceives what is going on doesn't intend to sit on the sideline.

Mr. **Rangel**. There is nothing in this bill that supports what you are talking about, Mayor Smith. The Secretary was here this morning, and he says you got to compete and after—under the bill—cities and States, based on their ability to assist this distressed area will be given priorities.

Mr. **Voinovich**. Mr. Chairman, I would like to say——

Mr. **Rangel**. I want to thank you, too, for visiting with me. I had no idea of the concerns that the administration had about this bill until after you visited, and I told you that, and obviously you told somebody and they called me right away.

Mr. **Voinovich**. I did tell them. You go to the head man, you know.

Even if Cleveland isn't chosen for an enterprise zone, assuming you pass the legislation, we have discovered something very, very important about economic development in Cleveland, Ohio, and we have already benefited from this exercise that we have gone through.

As I said in my testimony, Congressman, I think if a lot of other outfits like Cleveland go through the same process, trying to go after this, that in that process they are going to be doing something very beneficial for their communities.

Second, for years this Government of ours has been trying to do something about creating jobs in depressed areas. We have passed all kinds of pieces of legislation, all kinds that have applied across the board. What is wrong with the Federal Government doing a little research and development like our corporations do? Maybe this won't work. We will get into it, maybe a couple years, if it doesn't work, we will say it doesn't work and we will go on and try something else. If it does work, then we can build on that.

I remember the model cities program, got involved in it, lock, stock and barrel, full-blown, people felt it wasn't working, but they were afraid to admit it and we spent a lot of money and woke up one day and said, "Gee, this isn't the way to do it," we got out of it, and it was a very, very expensive proposition for us.

I am saying this particular piece of legislation will not cost that much, we can learn something from it. I think it is worthwhile.

Mr. RANGEL. Mayor Mutz.

Mr. MUTZ. The point I would make is this is a great example of where you have an opportunity to let the States do part of the experimentation for you because once you pass a Federal law, I would venture to say that virtually every State will come into the fold, not just 20 of 50, but the others will join because they want to compete, as you indicated.

The trend that I see in bills that have been enacted by States around the country is they have authorized their own legislation with numbers of cities or communities or rural areas to be designated that is greater than they could ever expect to get in this first round of competition in the experimental bill.

So the net result could be that once Federal law was in place, you could have as many as 300 to 500 zones throughout the United States. Some State zones only, some designate as both a State and Federal zone. Then you would have an opportunity to look at a rather broad-scale experiment. You would have a chance to see which concepts work, which don't.

Maybe the whole thing should be thrown in at that time. I don't know that. But I think this is a classic case of where you have a chance to use the States' initiative and innovation to work with. I think it will stretch a good deal further than just 75 zones designated in the H.R. 1955 bill.

Mr. ANTHONY. Mrs. Kennelly.

Mrs. KENNELLY. No questions.

Mr. ANTHONY. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

I appreciate very much the fact that you gentlemen have appeared here today to testify before our committee on this very important subject. I have not taken a firm position one way or the other on the issue. I am intrigued by it, and I certainly intend to pursue it further and give it consideration. Your testimony certainly will help me in coming to that decision.

So I really don't have any questions except one, I might just direct it to the Lieutenant Governor from Indiana.

I have read over your testimony, Mr. Lieutenant Governor, and I find that you have given very good testimony basically, and I guess that is probably because you have had a great deal of experience testifying before this Ways and Means Committee. If you recall, it was in December 1981, when you appeared before our Ways and Means Committee, the full committee, when Chairman Rostenkowski was presiding in Indiana. Is that correct? Do you recall that?

Mr. MUTZ. Yes, I remember that.

Mr. MATSUI. At that time, if I recall correctly, you stated that instead of being in Indiana visiting your State, intruding upon your State, we should be back in Washington dealing with those very, very difficult problems.

Second, you said in a very distinct manner that we should frankly mind our own business and shouldn't be intruding upon the State governments' rights, and I suppose if I were a nasty person, I would be asking you why you are not in Indiana taking care of your own business.

And, third, I would probably be asking you, why can't you handle your own affairs instead of coming to the Federal Government for assistance?

But because I don't feel that I should be discourteous, I am not going to ask those questions. I am going to just say that I hope in the future when the Ways and Means Committee or any other committee of Congress visits your very fine State—I do think the people of your State are very fine—that you show the same consideration and courtesy to us as this panel today has shown you.

Thank you.

Mr. ANTHONY. Do you want to reply?

Mr. MUTZ. Only to say that the comments that I made, if they were personally offensive, I most humbly apologize to you and to the members of the Ways and Means Committee.

The issue at hand at that time was a concern about budget levels and building a plan at the local level. That was the reason I read a statement prepared by the Governor of Indiana at that time.

Mr. MATSUI. And I understand you didn't repudiate the Governor's statement. You were saying that that statement was your statement as well, because I recall asking you that.

Mr. MUTZ. Yes, that is correct. Our concern was that it was very difficult to operate State government, given the lack of action by the Congress at that time. I would suggest that in this particular case, this is a legislative approach that demands cooperation among all the levels of Government: Local, State, and Federal, and I am here to offer suggestions at the request of the administration and among others who invited me to be here, and I again apologize to you, personally, and to Congressman Jacobs and anyone else who was offended by the statement I made.

Mr. JACOBS. Would the gentleman yield?

Mr. MATSUI. Yes, I yield to the gentleman from Indiana.

Mr. JACOBS. I will say on the record, you really don't need to apologize to me, because Governor Orr's statement, which I thought somewhat gratuitous, blasted me, inured to my immense benefit. You may recall I was embroiled in a very difficult primary at the time and having a member of the other party giving me the devil was most helpful. If anything, I am most grateful.

Mr. MATSUI. Mr. Lieutenant Governor, you need not apologize to me. As I indicated, I did not necessarily discuss this subject to request an apology, it is just that perhaps 1 day we of the committee would like to revisit your very fine State. We just hope you will show us some graciousness instead of asking us to leave. That is the only reason I raise my comments.

Thank you.

Mr. DUNCAN. Will the gentleman yield?

Mr. MUTZ. Congressman, we are glad to have you at any time. I would be glad to personally welcome you.

Mr. MATSUI. Thank you.

Mr. ANTHONY. Mr. Duncan?

Mr. DUNCAN. I think perhaps some of us should apologize to you for raising a question which is not related to this subject at all and to infer that you are not welcome at this committee because we are not the Federal Government. We and you and everyone are the Federal Government. You have certainly the right to petition your Government. On this side, we welcome you. Thank you.

Mr. ANTHONY. The full committee thanks you very much for your participation and for the addition you made to the record on this legislation.

Mr. MATSUI [presiding]. At this time we would call the next panel. I would like to call to the witness chair Mr. Seymour Kreshek, partner and chief financial officer, Alexander Haagen Development Co.; Mr. Peter Burnham, executive vice president, Trudy Toys Co., Inc.; Councilman Michael Lyons, city of Norwalk, Conn., Common Council; and Mr. John Carson, commissioner, Connecticut Department of Economic Development.

Would you please come to the witness chair.

Mrs. KENNELLY. Would the chairman yield?

Mr. MATSUI. Yes; I yield to the gentlelady from Connecticut.

Mrs. KENNELLY. Mr. Chairman, before we hear testimony from the next panel, I would like to express my appreciation to these gentlemen for coming from Connecticut to visit with us today.

Most of what we are going to hear from this panel will be about the Connecticut experience with this program that we began a year ago. Mr. Burnham and Councilman Michael Lyons from Norwalk will provide insights that they have gained from dealing with the concept of enterprise zones and will give us a hands-on report.

I might observe that this is sort of a textbook case of genius of our political system where we can have 50 States experimenting with solutions to a problem which then enriches us at the Federal level when we try to develop a national solution.

From a broader perspective, I am pleased Commissioner John Carson could be with us today. Mr. Carson is intimately acquainted with the details of our program and the success of the urban enterprise zone system rests on his shoulders. Mr. Carson has sustained a very positive working relationship with those individuals throughout the State who are concerned with the problems of distressed areas, which we want to make stop happening.

I would like to welcome all of you to the committee. I thank the chairman for yielding.

Mr. MATSUI. Thank you.

At this time I would like to state that your written testimony has been received by the committee and with unanimous consent, we would accept it for the record.

I would call on Seymour Kreshek. You may proceed.

STATEMENT OF SEYMOUR KRESHEK, PARTNER AND CHIEF FINANCIAL OFFICER, ALEXANDER HAAGEN DEVELOPMENT CO., MANHATTAN BEACH, CALIF.

Mr. KRESHEK. Mr. Chairman, I am honored for the opportunity to appear before the committee today in such an important hearing in which such distinguished panels are appearing. I am grateful for the opportunity to comment on proposals for the tax incentives to economically distressed areas.

Also, I want to thank you for allowing me to substitute for Alexander Haagen, who is unable to be here, and I have his statement for the record.

Present law results in significant financial impediments in financing projects in economically distressed areas. I have first-hand experience in a development area where a major department store and numerous other business operations had closed, an area which had been all but deserted by the established business community.

In 1981, working closely with Mayor Tom Bradley of Los Angeles, my company developed one of, if not the first, security-oriented shopping center structured as a public/private partnership with the city of Los Angeles, at the intersections of Vermont and Slauson Avenues in the midst of an inner city, high unemployment, poverty level area.

The Vermont-Slauson project created more than 400 new unskilled full-time jobs and approximately 100 part-time jobs in what had been a disastrous abandoned commercial site, the jobs which would not otherwise have been created. The Vermont-Slauson project with its emphasis on service to the local neighborhood in an attractive and secure setting brought competitive shopping to residents of the area and reestablished a sense of pride within the community.

Utilizing that experience, we are currently working on a development to develop a similar project in the Watts area of Los Angeles.

Our experience has shown that such projects to succeed must overcome a financial gap that results from a combination of higher costs, not only for security, but also maintenance, coupled with lower rental revenues reflecting the greater business risks in economically distressed areas.

Present law in many instances lacks sufficiently specific direction to overcome this financing gap.

The new type of legislation being considered and proposed today would encourage solution of distressed area needs in an economically sound manner differently from other incentives heretofore available.

Being specifically designed for the limited purpose of distressed area financing, it would be effective in closing of the financing gap commonly existing now.

What we are recommending here today is a new kind of industrial development bond. Because of its specific design to accomplish a needed purpose, it would differ fundamentally from other IDB's of the small issue type, which lack such defined purpose and frequently don't do the job by virtue of principal user and other technical limitations. The bond issuance process would also provide a more practical testing of economic feasibility in the financial marketplace than frequently is achieved in a purely grant-oriented approach.

Requirements for issuance of a qualified redevelopment area facility, IDB would be first, that the area involved meet objective criteria evidencing significant poverty, unemployment and general distress; second, that the area be recognized and designated by a local government as a redevelopment area; and third, that the approving governmental unit certify that the project would be likely to have a substantial employment effect in that redevelopment area measured objectively by the relationship of jobs created to project capital expenditures. In order to attract those private enterprises most able to bear the typically higher risks in distressed areas, relief from the principal user and other technical small issue IDB rules would be provided.

Employment tax effects should be considered in measuring revenue implications and when that is done, it can be demonstrated that significant net revenue gains will result to the Federal Government as well as State and local benefits accruing from the creation of the new employment opportunities for unskilled, unemployed citizens of these great United States, whether it be in the South Bronx of New York, or the Watts district in Los Angeles or any other urban or rural economically distressed area.

In this connection, our proposal has been written so that it may be considered separately or in conjunction with the enterprise zone or other proposals.

Because of our first-hand experience and the clear tie to creation of jobs and resulting revenue gains, we do not consider our proposal to be experimental and its broader availability is therefore justified.

In conclusion, Mr. Chairman, the legislation being considered here today presents a sound solution to many of the problems of economically distressed areas. Such a program will provide the additional incentives needed to attract meaningful business and industrial facilities with resultant employment gains.

We have done it, we can do it, and with your help, we will do it again. Thank you.

Mr. MATSUI. Thank you very much.

[The prepared statement of Mr. Haagen follows:]

STATEMENT OF ALEXANDER HAAGEN, PRESIDENT, ALEXANDER HAAGEN DEVELOPMENT CO.

I am Alexander Haagen, President of Alexander Haagen Development Company, of California. I am grateful to the Committee for this opportunity to comment on proposals for tax incentives to economically distressed areas.

Opportunity for the underprivileged has been the beckoning force that helped create our great American society. As opportunities disappear for the underprivileged, despair and disillusionment take their place. The unfortunate deterioration of many sections of our country has come about as a result of economic hardships brought on by the closing of stores and factories, resulting in the loss of hope, ambition and pride for the citizens living in these areas.

As a real estate developer, I have become involved with the community well-being in my own state and have specifically become concerned with the need to bring our economically distressed areas into the mainstream of the American dream. With some success, as I shall explain, I have sought practical ways to bringing private financial resources to bear, with public support where appropriate, in the meeting of this need—responsibly, fairly, and sensitively to the situation of the local residents. In so doing, I have been exposed to the unusual difficulties faced when trying to finance projects in economically distressed areas, and after considerable discussions with others, have come forward here to suggest that a fairly modest, targeted change in current law will provide important help to economically distressed areas at minimal revenue cost, indeed very likely an actual revenue gain.

In recommending now a new form of industrial development bond for "qualified redevelopment area facilities," I am very much aware that this Committee has recently reported out an important tax bill containing major provisions designed to curtail the use of "private purpose" public securities. I am not here today to address that broad subject, except to observe that in times of financial stringency, it is always necessary to take a hard look at the justifications for use of public funds, particularly uses as general as the current "small issue" industrial development bond. The proposed "qualified redevelopment area facility" IDB is different, precisely because it is tailored to make the IDB benefit usable in distressed areas, where it is most needed and where it is frequently ineffective today because of "principal user" and other current technical limitations.

I also know that IDB provisions are included in some bills before the Committee today, the "Enterprise Zone" proposal for example. Again, the "qualified redevelopment area facility" IDB is different, because it addresses directly the frequent financial shortfall in distressed area projects, and does so more simply and with a shorter period of federal commitment than in the Enterprise Zone provisions. I am not saying, incidentally, that the Enterprise Zone proposal is inappropriate, but rather that the two approaches are different and that there should be room for both.

The concept of a "qualified redevelopment area facility" IDB is straightforward. First, an area (typically a census tract) would have to meet objective criteria of poverty, unemployment and general distress substantially identical to those in the Enterprise Zone proposal. Second, the area would have to be designated by a local governmental unit as a redevelopment area. No specific action or elaborate procedure would be required of the local government, in the belief that the objective criteria of distress when combined with local recognition of the need, woud lead to flexible and practical responses. In many situations, there will be no feasible venture without significant local support beyond IDB availability and private venture capital financing, but situations will vary. Third, and most important, the facility—which would have to be in or adjacent to the designated redevelopment area—would have to be certified by the approving governmental unit as likely to have a substantial full time employment impact in the redevelopment area, measured objectively by the relationship of jobs created in the redevelopment area to project capital expenditures. In addition, in order to attract those private enterprises most able to bear the typically higher risks in distressed areas, rules for this kind of IDB would provide relief from certain of the "principal user" and other technical rules associated with the "small issue" type of IDB. A proposed draft bill (starting from current law and thus requiring some technical changes should provisions such as those in H.R. 4170 be first enacted) is attached for your consideration.

Why is a "qualified redevelopment area facility" IDB needed? The answer becomes perfectly obvious once you start the undertaking of bringing a project into an economically distressed area. I have first hand experience in an area where a major department store and numerous other busines operations had closed, an area which had been all but deserted by the established business community. In 1981, my company completed in that area what I am told was the first security-oriented shopping center in the United States, a joint venture public/private partnership with the City of Los Angeles at Slauson and Vermont Avenues in the midst of an inner city poverty level area. The Vermont-Slauson project, although specifically a commercial project, may be seen as one prototype of what can be done in economically distressed areas generally with adaptation for industrial and other projects. More than 400 new unskilled full-time jobs and approximately 100 part-time jobs were created locally in what had been a disastrous, abandoned commercial site. The Vermont-Slauson project, with its emphasis on service to the local neighborhood in an attractive and secure setting, brought competitive shopping to residents of the area and re-established a sense of pride within the community. The commercial success and other features of the project are attracting national attention (for one illustration, see the Urban Land Institute Project Reference File attached). It was not IDB-financed, but also could not and would not have been done absent a number of exceptionally favorable circumstances, including UDAG and EDA grants, funding from the City of Los Angeles, and the unusual facts that (1) the land was obtained free from private sources and was thus not a cash cost to the project and (2) a local bank voluntarily made available a subsidized, below market rate loan for that project.

In other comparable situations—but with more normal costs and circumstances—it doesn't take much mathematical prowess to see that conventional financing just will not work. The most important ingredient for the new approach of my prototype is to provide security (including enhanced clean-up and maintenance support) to the merchant, employee, shopper and supplier. Providing a security environment substantially increases operating costs, while at the same time below-market rentals are prevalent because of the business risks associated with the typical distressed area. Lower cost financing is the key to bridging the gap created by increased costs and decreased revenues. The "qualified redevelopment facility" IDB is in our opinion the perfect response, because it would be effective in bridging this gap and in encouraging private enterprise and private capital to return to these neglected areas, whether they be urban or rural. Moreover, the IDB approach does involve a testing of the viability of the project in the financial marketplace through the process of issuing bonds, and therefore provides greater checks and balances on the economic soundness of the project then would a purely grant-oriented approach.

The hearing notice for today's proceedings also invited comments on the methods for assessing revenue implications of proposals. One that point, I would suggest, in relation to the qualified redevelopment area facility IDB, that the employment tax effects should be considered. When hundreds of workers are removed from the welfare rolls, as was done at Vermont-Slauson and would be the specific intent of my proposals, there would be a direct infusion of Social Security and income tax revenues from the new workers, not to mention reduced welfare costs, increased local sales taxes, and various indirect revenue effects of generating new employment. In the aggregate, these items should greatly reduce if not totally offset revenue costs involved in the issuance of tax-exempt securities.

In conclusion, the qualified redevelopment area facility IDB is a sound solution to many of the problems of economically distressed areas. Such a program will provide the additional incentives needed to attract meaningful business and industrial facilities and activities. It also has the virtues of relative simplicity in operation and minimal net overall revenue impact. Accordingly, I urge its favorable consideration and prompt enactment into law.

[DRAFT 11/ 16/83]

98th CONGRESS
1st Session
H.R. _______________

To amend the Internal Revenue Code of 1954 to authorize industrial development bond financing for qualified redevelopment area facilities.

IN THE HOUSE OF REPRESENTATIVES

November , 1983

Mr. ________________ (for himself, Mr. ___________________, Mr. ________________, and Mr. ________________) introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To amend the Internal Revenue Code of 1954 to authorize industrial development bond financing for qualified redevelopment area facilities.

Be it enacted by the Senate and House of Representatives of of the United States of America in Congress assembled,

SECTION 1.

(a) Paragraph (4) of section 103(b) is amended--

(1) by striking out "or" at the end of subparagraph (I),

(2) by striking out the period at the end of subparagraph (J) and inserting in lieu thereof ",or", and

(3) by adding at the end thereof the following new subparagraph:

"(K) qualified redevelopment area facilities."

(b) Subsection (b) of section 103 is amended by adding at the end thereof the following new paragraph:

"(15) QUALIFIED REDEVELOPMENT AREA FACILITY--For purposes of this section, the term "qualified redevelopment area facility" means a facility which--

"(A) is located in or adjacent to an area meeting one of the following criteria--

"(i) the unemployment rate, as determined by the appropriate available data, was at least 1 1/2 times the national unemployment rate for the period to which such data relates, or

"(ii) the poverty rate (as determined by the most recent census data available) for each populous census tract (or where not tracted, the equivalent county division as defined by the Bureau of the Census for the purpose of defining poverty areas) within the area was at least 20 percent for the period to which such data relates, or

"(iii) at least 70 percent of the households living in the area have incomes below 80 percent of the median income of households of the local government (determined in the same manner as under section 119(b)(2) of the Housing and Community Development Act of 1974), or

"(iv) the population of the area decreased by 20 percent or more in the most recent decennial census period,

"(B) is located in or adjacent to an area designated by a governmental unit having jurisdiction over such area as a redevelopment area, and

"(C) is certified by a governmental unit, while approving an issue of obligations for such facility pursuant to section 103(k), to have a reasonable expectation of increasing full time employment of residents of the redevelopment area to the extent of at least one new job for each $50,000 of total capital expenditures for land or tangible property included in the facility however financed (at least half of which new jobs must reasonably be expected to continue for a significant period after the completion of acquisition, construction or rehabilitation)."

(c) Subparagraph (E) of section 103(b)(6) is amended --

(1) by striking out "and" at the end of clause (i),

(2) by striking out the period at the end of clause (ii) and inserting in lieu thereof ", and", and

(3) by adding immediately thereafter the following new clause:

"iii) which are not qualified redevelopment area facilities."

SECTION 2. The amendments made by section 1 shall apply to obligations issued after the date of enactment."

the Urban Land Institute

Project Reference File

commercial

1. A six-foot-high wrought-iron fence surrounds the center.

General Description

Vermont-Slauson Shopping Center is a 148,284-square-foot (GLA) community center which was developed as a joint venture between the public and the private sectors. The project occupies a 9.7-acre site in south-central Los Angeles, a high-density, inner-city area characterized by low incomes and high crime. With the help of exceptional security measures, the center has operated very successfully since its opening in the fall of 1981. Sales averaged $239 per square foot in 1982, the center's first full year of operation. The development is anchored by three major tenants—a discount department store (Zodys), a drug chain (Sav-On), and a supermarket (Boys). Public funding for the $8.2 million project totaled approximately $5 million, including a $1.5 million Economic Development Administration Grant (EDA), a $2.5 million Urban Development Action Grant (UDAG), and $1 million from the city of Los Angeles. Private investment was approximately $2.2 million. In addition, Sears, Roebuck and Co. donated a portion of the site which was valued at $1.2 million.

The Site

The site lies at the intersection of Vermont and Slauson Avenues, two major arterials with high traffic volumes. These streets are lined primarily with storefront retail and service businesses. The predominantly single-family detached homes in the area are old but maintained with pride. However, there is a high rate of unemployment in the area, and the community is also known for its gangs and high crime rate, all of which presented special problems in designing and attracting tenants to the center.

The site is relatively flat and had no unusual physical characteristics. Several existing buildings on the site, including an old Sears department store, had to be demolished. In addition, an existing street which bisected the parcel had to be vacated and a portion of the site required rezoning.

Background and Development Agreements

Since the 1920s, the Sears store had served as the anchor for retail activities in the community. In 1977, following a number of unprofitable years, Sears abandoned this location.

Local merchants were concerned about the negative impact which the Sears closing would have on retailing in the area and approached the city of Los Angeles regarding possible solutions. Sears indicated a willingness to donate their property to a nonprofit group and, in 1979, the city established the Vermont-Slauson Economic Development Corporation (VSEDC) which received the Sears property and building.

The city also commissioned an economic study and an architectural study on the development potential of the site. These studies focused on the reuse of the Sears building. In 1978, the city approached a private developer, Alexander Haagen Development, who determined that although the Sears building was structurally sound, it was obsolete from a merchandising standpoint. Therefore, Haagen Development recommended that the structure be demolished, together with several other buildings, and an entirely new retail center be created on the site.

A limited partnership was then formed made up of Haagen Development (as general partner) and VSEDC (as limited partner) to develop a new community shopping center. The VSEDC became the recipient of the federal and city grants and also holds title to the property; Haagen Development holds a 90-year ground lease. City block grant funds were used to acquire the additional property not donated by Sears. Haagen Development negotiated the various deals to complete the land assembly and the use of eminent domain was not required. Sixty percent of the center's profits (following the return on investment of private sector money) goes to the VSEDC; 40 percent of the center's profits goes to the private developer, who operates the center. The money going to the VSEDC will be used for further development of the local community.

Design and Security

The primary concern in the planning and design of the project was to provide adequate security. The site is surrounded by a six-foot-high wrought-iron fence and access is limited to two entrances and exits (one on Vermont Avenue and one on Slauson Avenue). These access points have gates which are locked at 11 p.m. and reopened at 5 a.m. Each entrance/exit has a gatehouse for security personnel. The wrought-iron fence was selected instead of a concrete wall in order to provide visibility into the project from the street, to eliminate the possibility of a graffiti-covered wall, to avoid areas where litter could collect, and to minimize potential hiding places for criminals. Within the center, a uniformed, armed security force is on duty 24 hours a day, seven days a week. This 17-man force is supplemented by a two-man patrol which is provided eight hours a day by the Los Angeles police department. Buildings were designed to allow the easy installation of alarm systems by tenants. Annual security costs for the center are approximately $1.95 per square foot.

The center consists of four adjoining buildings of approximately 160,000 square feet (GBA) and two small freestanding buildings of 4,200 and 1,500 square feet (GBA). The one-story buildings have an "early California" design theme and blend mission tile canopy roofs, light-colored textured plaster, heavy wood trim, and split-face concrete masonry. Creeping vines were planted along the buildings' exteriors to minimize problems with graffiti. Additional landscaping includes landscaped areas of approximately three to 20 feet wide which run along the perimeter of the site adjacent to the wrought-iron fence and landscaped islands within the parking area. Trash receptacles are screened by a combination of masonry walls and landscaping and the site is cleaned and swept daily.

Experience Gained

- The project's extra security has been a critical factor in its success. However, while the extra security was a major attraction to tenants, the center's unusually high common area expenses (due to this security) had to be offset by lower than normal rents. The project's public funds assured its economic viability despite the below-market rents.
- For a public-private partnership to operate smoothly and efficiently, it is imperative that the elected public officials clearly document at the outset of the project what they want to accomplish and make certain that all public agency staff members are aware of and adhere to the desired objectives. This will help to expedite the government review and approval process, thereby avoiding major delays and cost overruns for the private developer.
- Before making a commitment to a joint venture with the public sector, the private developer should confirm that the public sector will obtain approvals for rezoning, street vacations, or other similar items which may be required. This will eliminate the need for the private developer to participate in the time-consuming and costly process of obtaining these approvals.
- In structuring the board of directors of a local economic development corporation which will participate as a limited partner with a private developer, it is important to recognize the need for local representation. However, it is also essential that all members of the board be familiar with the role of a limited partner and understand what is equitable in a limited partner relationship.
- Decisions regarding what appeared to be comparatively simple items, such as the type of fence to be provided around the perimeter of the site, proved to be a lengthy process. For example, the private developer believed that a wrought-iron fence would be best for security reasons. The city, on the other hand, believed that such a fence would present a negative image for the center and

2. Buildings have an "early California" design theme.

the community and, therefore, preferred a low concrete block wall. After considerable debate, the private developer was able to convince the city that a wrought-iron fence was needed for security. In addition, it was pointed out that the fence would not detract from the center's image but instead would give the center an exclusive appearance similar to that of a gated residential community.

- In providing security for a retail center in a high-crime area, fencing the site and providing an around-the-clock security force are highly preferable to the installation of grill gates on windows and doors. Grill gates present a very negative image and make it impossible for tenants to display their merchandise in a quality manner.
- From the perspective of the private developer, working in partnership with the public sector may present a number of drawbacks, including delays in funding, extensive contractual and sign-off requirements, frequent progress reporting, and complex bidding procedures.
- The center's security measures have been very effective. In approximately 1½ years of operation there has been only one robbery (which took place due to the negligence of the employees in one of the stores). There have been no muggings or thefts from cars parked in the center.

PROJECT DATA

Land Use Information:

Site Area: 9.66 acres (3.91 hectares)

Gross Building Area (GBA): 165,768 square feet

Gross Leasable Area (GLA): 148,284 square feet

Floor Area Ratio (FAR): .39[1]

Parking Spaces: 699

Parking Index: 4 spaces per 1,000 square feet

Economic Information:

Site Acquisition Cost: $1,932,000[2]

On-Site Improvement Cost:

Fine Grading and Paving	$320,463
Electrical	86,253
Plumbing	73,844
Landscaping	70,776
Fencing	78,276
Gate Houses	14,073
Total	$643,685

Off-Site Improvement Cost: $156,795

Construction Cost: $4,252,000[3]

Soft Costs:

Architectural & Engineering Fees	$220,000
Construction Supervision and Inspection	25,000
Fee and Permits	15,000
Interim Financing	113,500
Interim Loan Fee	20,000
Legal, Title, and Other Professional Fees	10,000
Contingency	10,000
Other	75,485
Total	$488,985

Total Project Cost:

Private Developer	$2,220,000
Economic Development Administration Grant	1,520,000
Urban Development Action Grant	2,520,000
City of Los Angeles	1,000,000
Sears	1,200,000[4]
Total	$8,460,000

Rents: $4–12 per square foot[5]

Sales: $239 per square foot (1982)

Annual Operating Expenses:[6]

Total	$461,000
Per Square Foot	$2.84[7]

Land Use Plan:

	Acres	Percent
Buildings	3.39	35.0
Parking, Landscaping, Circulation	6.27	65.0
Total	9.66	100.0

Tenant Information:

Classification[8]	Number of Stores	Sq. Ft. of GLA	Percent of GLA	Average Percent of GLA in Community Centers[8]
General Merchandise[9]	1	66,096	44.6	35.4
Food	1	33,600	22.7	14.9
Food Service	1	4,000	2.7	4.7
Clothing	5	10,685	7.2	7.4
Shoes	1	1,660	1.1	2.0
Home Furnishings	—	—	—	2.5
Home Appliances/Music	1	2,226	1.5	1.8
Building Materials/Garden	—	—	—	2.2
Automotive Supplies/Service Station	—	—	—	2.1
Hobby/Special Interest	—	—	—	2.2
Gifts/Specialty	1	920	.6	2.1
Jewelry and Cosmetics	—	—	—	.8
Liquor	—	—	—	.6
Drugs	1	25,487	17.2	4.6
Other Retail	2	336	.2	2.8
Personal Services	—	—	—	2.5
Recreation/Community	—	—	—	3.3
Financial	—	—	—	3.0
Offices (other than Financial)	—	—	—	2.1
Other	2	3,254	2.2	3.0
Total	16	148,284	100.0	100.0

Notes:

[1] FAR = GBA divided by total site area.

[2] Includes property donated by Sears to the city which had a value of $1.2 million.

[3] Hard costs only.

[4] Donation of Sears property to the city.

[5] Net rents. Common area expenses are not included.

[6] Operating expenses for 1982.

[7] Includes security cost of approximately $1.95 per square foot.

[8] *Dollars & Cents of Shopping Centers: 1981* (Washington, D.C.: ULI–the Urban Land Institute, p. 296).

[9] Zodys department store.

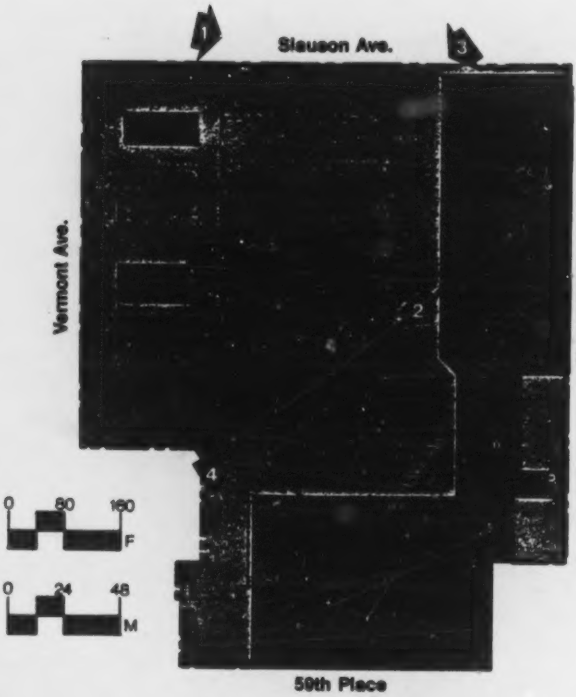

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Photo Angle

Directions:

From Los Angles International Airport: Take Century Boulevard east to the San Diego Freeway (Interstate 5) north. Follow the San Diego Freeway north to the Santa Monica Freeway (State Route 10) east. Take the South Monica Freeway to the Harbor Freeway (State Route 11) south and proceed on the Harbor Freeway to the Slauson Avenue exit. Head west on Slauson Avenue and the project will be on your left.

Driving Time: Approximately 25 minutes in non-rush-hour traffic.

From Downtown Los Angeles: Take the Harbor Freeway south and follow above directions.

Driving Time: Approximately 10 minutes in non-rush-hour traffic.

3. Access is limited to two entrances and exits. Each entrance and exit has a gate and a gatehouse.

4. The center is anchored by three major tenants—Boys (a supermarket), Zodys (a discount department store), and Sav-On (a drug chain).

Mr. Matsui. Mr. Lyons.

STATEMENT OF MICHAEL W. LYONS, COUNCILMAN, CITY OF NORWALK, CONN., COMMON COUNCIL

Mr. Lyons. Thank you, Mr. Chairman. I will have additional materials I would like to enter into the record.

Mr. Matsui. Without objection, they will be received.

Mr. Lyons. I am Michael Lyons. I am chairman of the Planning Committee of the Norwalk Common Council. I am here representing the city of Norwalk, a community of 80,000 people which became one of the first operational enterprise zones in the United States in October 1982. We now have 13 months experience with a functioning State enterprise zone and I would like to share my city's experiences with you.

We have heard—I have been here most of the day today and everybody has basically been talking from a theoretical viewpoint. We have had an enterprise zone for 13 months now so we have some answers to some of the questions people had raised.

Mr. Carson can detail the State aspects of the program, but in my own city we implemented a program of local commitment to the enterprise zone that was directly based on the proposed criteria in the bill before us, H.R. 1955. Specifically, tax relief, neighborhood initiatives, public service improvements and deregulation.

We have made significant progress in all these areas and we believe that progress is beginning to bear fruit. In the area of tax relief, we are providing an extensive package of State and local tax abatements to companies expanding employment in our enterprise zone. These tax abatements are made contingent under the Connecticut program on 30 percent of the firm's employees being residents of the zone or city if they are eligible for aid under the Job Training Partnership Act.

Under neighborhood initiatives, we have organized several neighborhood crime watches and we have redirected 20 percent of our Federal community development CD funds to a new program of challenge grants in which matching grants are made to business and neighborhood groups that agree to work out neighborhood improvement projects and to match the city's contribution with their own funds or with "sweat equity."

Under service improvements we have made major commitments to capital improvements in the zone including construction of a $7.5 million, four-lane industrial access roadway. I think that is significant as has been pointed out before. The enterprise zone should not be considered a panacea, it should be part of an overall program of development of an area.

I don't think you can leave out improvement of infrastructure to go along with the development that you intend to attract.

We have also become the first city in the State to pass a local ordinance permitting creation of special services districts in which property owners can from a municipal district and take over from the city provision of certain services like snow plowing and so on in return for reduction in taxation if they feel they can improve services that way.

Finally, under deregulation we found that it is possible to significantly speed up a permit process without necessarily reducing the protections. I know one of the questions that people had raised here was, well, all this talk of deregulation, are you really talking about undoing the work of the past 20 years to protect people and the environment.

We have managed without substantially changing the regulations themselves to significantly speed up the process of going through the permit process. In other words, the protections are there, but you can do it in a much more efficient manner.

We have consolidated the permit application and code enforcement functions for plan, zoning, conservation, and building in one code enforcement department that permits a one-stop permitting process in the city.

The department also includes a position of code coordinator whose job is to be an ombudsman essentially for those applying for permits by fast tracking applications and breaking through bureaucratic bottlenecks in the system. There are other actions we have taken beyond these, but this basically summarizes the thrust of the approach.

According to the latest information compiled by the Redevelopment Agency, new jobs created or to be recreated by projects now under construction will increase total employment in our enterprise zone by 21 percent, from 1,211 to 1,464 jobs.

Of greater significance to us where we found the most effectiveness is the fact that several hundred jobs have been saved by the presence of the zone incentives convinced several major firms that had been planning to move from the city to stay in Norwalk and expand there instead.

We have been surprised by the amount of activity taking place here only 1 year into a 10-year program. Mr. Peter Burnham is here to relate to you the experiences of his company in cancelling previous plans to leave Norwalk and instead purchasing lands in the enterprise zone in which to expand.

I believe that you have a golden opportunity to join the already evolving partnership of State and local governments with the private sector if you approve Federal enterprise zone legislation. If there is one complaint we have heard from businessmen it is that State and local tax incentives are enough to help mildly distressed areas and bring about some growth but that the stronger Federal incentives will be needed to help areas that are more severely distressed.

That is why I am here today, to ask you to ask the Federal Government to complete the puzzle. We have a lot of State and local involvement and we need one more piece, the Federal Government, to come in. The city is living proof that the enterprise zone concept is fundamentally sound. It does work.

I urge you to add the Federal incentives that will make it work better and that will help more distressed areas that State and local incentives alone are probably not strong enough to effectively help.

We do not view the zone as a panacea. It can work well in conjunction with traditional programs. We are—the development package for south Norwalk includes an urban renewal, action grant program and the enterprise zone and we found them to mesh well.

We believe it can make a significant contribution to the well-being of our cities. If I had one suggestion that I would make for your possible inclusion in Federal legislation, it would be for an expensing provision or something comparable, because I think the one thing that the Federal program does lack is provision of capital for start-up businesses.

Where we have found the most response from businesses in our own enterprise zone is businesses that were already in business there that had some profits they could take a tax incentive against, but that had basically put their expansion plans on the shelves.

The enterprise zone was enough to get them to take the plans off the shelves and start building again. There hasn't been comparable activity, though, among new businesses starting up.

Connecticut, I think, has realized that weakness and put in a loan program, special program for startup investment capital in enterprise zones.

I think that it would probably be a better approach with the Federal Government to add an expensing tax provision to avoid adding another layer of bureaucracy. But I think Connecticut realizes this is a weakness.

I think if you can plug that last hole, you actually do have a very good program and I strongly urge you to adopt it.

[The prepared statement and attachments follow:]

STATEMENT OF MICHAEL W. LYONS, ESQ., CHAIRMAN, PLANNING COMMITTEE, NORWALK, CT COMMON COUNCIL

Thank you, Mr. Chairman, for this opportunity to address the Committee on Federal Enterprise Zone legislation and other economic development incentives for distressed areas.

I am here representing the City of Norwalk, Connecticut, a community of 80,000 people which became one of the first operational Enterprise Zones in the United States in October of 1982. We now have thirteen months' experience with a functioning Enterprise Zone (EZ), and I would like to share my City's experiences with you.

Norwalk became one of six Connecticut cities to receive State EZ designation last year. The six cities were chosen in a competitive process in which 22 cities and towns competed. I will defer to Mr. Carson of the CT Dept. of Economic Development to detail the Connecticut program as a whole.

In my own city, we have implemented a program of local commitment to the EZ that was directly based on the proposed criteria in the Administration's EZ bill (H.R. 1955); specifically, Tax Relief; Neighborhood Initiatives; Public Service Improvements; and Deregulation. We have made significant progress in all of these areas, and that progress is beginning to bear fruit.

In the area of tax relief, we are providing an extensive package of State and local tax abatements to companies expanding employment in the Zone. These tax abatements are made contingent, under the Connecticut program, on 30 percent of the firm's employees being residents of the Zone, or of the City if they are eligible for aid under the Job Training Partnership Act.

Under Neighborhood Initiatives, we have organized several neighborhood crime watches, and we have redirected 20 percent of our federal Community Development (CD) funds to a new program of "Challenge Grants," in which matching grants are made to business and neighborhood groups that agree to work out neighborhood improvement projects and to match the City's contribution with their own funds or with "sweat equity."

Under Service Improvements, we are contracting out some municipal services in the Zone to private entities, to take advantage of efficiencies available in the private sector. We have made major municipal commitments to capital improvements in the Zone, including the construction of a $7.5 million 4-lane industrial access road. And we have become the first City in the State to pass a local ordinance permitting the creation of "Special Service Districts," in which property owners can agree to form a municipal district for their area that would take over from the City the provision of certain municipal services (such as garbage collection and snow plowing) in return for reduction in municipal taxation.

Finally, under deregulation, we have recently consolidated the permit/application and code enforcement functions of the City (Planning, Zoning, Conservation, Building, etc.) in a single Code Enforcement Department, thus providing a "one-stop" permitting process in Norwalk. The Department also includes the position of "Code coordinator," whose job it is to be an "ombudsman" for those applying for permits, by fast-tracking applications and breaking through bureaucratic bottlenecks in the system.

There are other actions taken in Norwalk beyond these, but these four areas summarize the thrust of the approach. The approach is now paying off.

According to the latest information compiled by the Norwalk Redevelopment Agency, new jobs created (or to be created by projects now under construction) will increase total employment in the EZ by 21 percent (from 1,211 to 1,464 jobs). Of greater significance, I believe, is that hundreds of jobs have been saved because the presence of the EZ incentives convinced several major firms that had been planning to move out of the City to stay and expand instead. We have, quite frankly, been pleasantly surprised by the amount of activity already taking place in the EZ, only one year into it's ten year life-span.

Mr. Peter Burnham of Trudy Toys, Inc., is here to relate to you the experience of his company in cancelling their previous plans to leave Norwalk and instead purchasing land in the EZ on which to expand. His is one of several stories of businesses that have changed their minds since the EZ went into effect.

I believe that you have a golden opportunity to join the already-evolving partnership of State and local governments with the private sector if you approve Federal Enterprise Zone legislation. If there is one complaint we have heard from businessmen, it is that the State and local tax incentives are enough to help mildly distressed areas and bring about some growth; but that the much stronger federal incentives would virtually guarantee the success of Enterprise Zones. That is why I am here today—to ask you to put in place the last piece of the puzzle, which is federal participation in the EZ programs already underway in over twenty states and under consideration in most of the rest.

The City of Norwalk is living proof that the EZ concept is fundamentally sound; it works. I urge you to add the federal incentives that will make it work well, and work in the more distressed areas the State and local incentives alone cannot help. The EZ is not a panacea; it can work well in conjunction with more traditional programs; it can make a significant contribution to the well-being of our Cities; and it deserves a try.

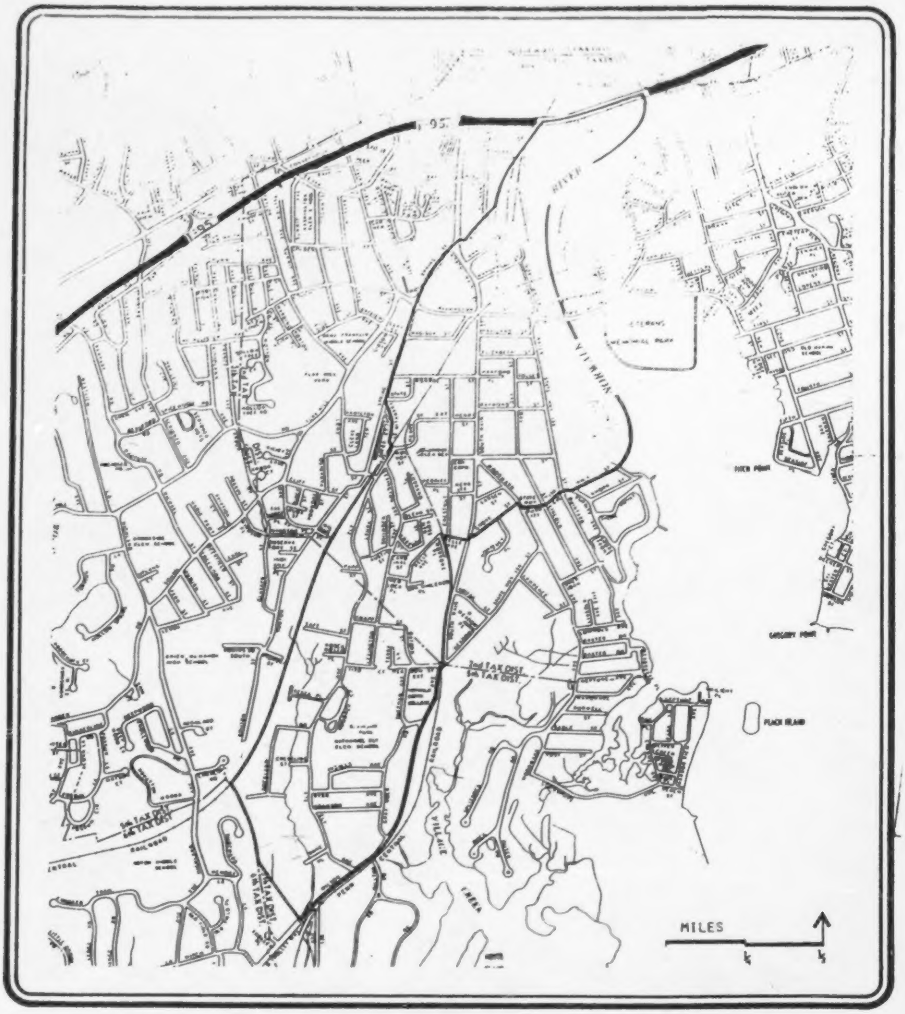
Thank you for your time.

ATTACH TO TESTIMONY OF MICHAEL W LYONS

SOUTH NORWALK ENTERPRISE ZONE

A PATH TO URBAN REVIVAL

NORWALK REDEVELOPMENT AGENCY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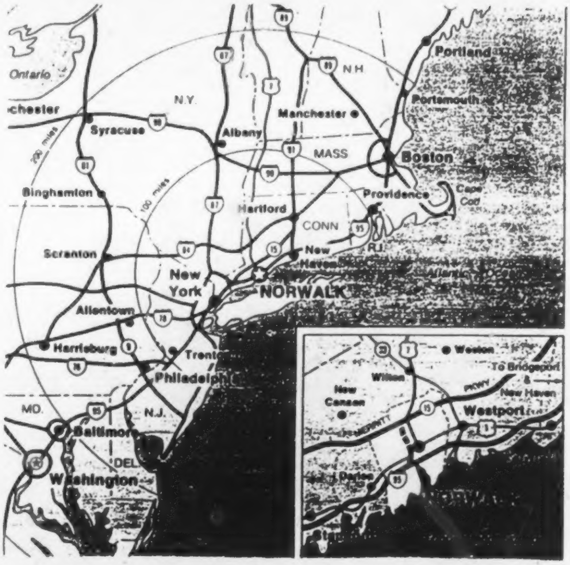
ENTERPRISE ZONE

CITY OF NORWALK CONNECTICUT

OPPORTUNITY FOR REVIVAL



South Norwalk has long symbolized the resistance of urban blight to recovery. In recent months, however, an innovative approach to stimulating its revival has been adopted. Connecticut has designated South Norwalk as one of six "enterprise zones" offering powerful incentives for economic revival. This report highlights Norwalk's preparations for enterprise zone activation, and invites your help in ensuring that the zone delivers full benefits to the community.

Severe problems afflict residents and businesses in South Norwalk today. Many residents are struggling to maintain their standard of living and their jobs. Increased housing costs, caused by land use changes and the city's proximity to fast-growing Stamford and Greenwich, have put pressure upon low-income tenants. Declining employment in industry has foreclosed an important source of job opportunities.

Businesses face comparable problems. Unexpected population losses in South Norwalk and high interest rates have placed tremendous pressures upon employers. Compounding these obstacles are the high cost and scarcity of adequate expansion space, and a short supply of skilled labor. Increasing costs of doing business in South Norwalk and chronically depressed retail sales have contributed to the high rate of business failures.

As demonstrated by the ongoing South Norwalk Revitalization Program, the city has fought back by capitalizing on its strengths. These strengths include:

-a favorable geographic location
-a strong sense of community
-a healthy work ethic
-an attractive waterfront along the coast
-the presence of historic buildings.

Yet progress in reviving South Norwalk's economic base has been disappointing. Even in times of far better national and regional economic health, the area has continued its decline.

A new opportunity for South Norwalk is now available. In the state of Connecticut, six enterprise zones have been designated, offering powerful tax incentives to stimulate business activity in inner cities. In Congress, a broad, bipartisan coalition is sponsoring enterprise zone legislation that would sharply reduce federal tax burdens for employers in depressed areas. The results of enterprise zones are likely to be new private sector jobs and investments in areas of great need.

Enterprise zone preparations by the city began early in 1982, when the Common Council moved to put Norwalk at the forefront of the competitive state application process. Since formation of the city's Enterprise Zone Task Force under the Norwalk Redevelopment Agency, Norwalk has received state and national attention for the breadth and quality of its preparations.

This report reviews the enterprise zone approach, the preparations and accomplishments achieved by Norwalk to date, and the future developments that could maximize enterprise zone benefits for the city. Throughout its preliminary planning, Norwalk's Task Force has been guided by a desire to stimulate new partnerships among businesses, residents, and city agencies for resolving problems that have eluded solution through past approaches.

Your interest and participation in the enterprise zone initiative are welcomed. Having activated one of the first operational enterprise zones in the country, the Norwalk Enterprise Zone Task Force urges all who have a stake in South Norwalk's revival to contribute in coming months— and to share in the benefits that result.

HISTORY OF A PROBLEM

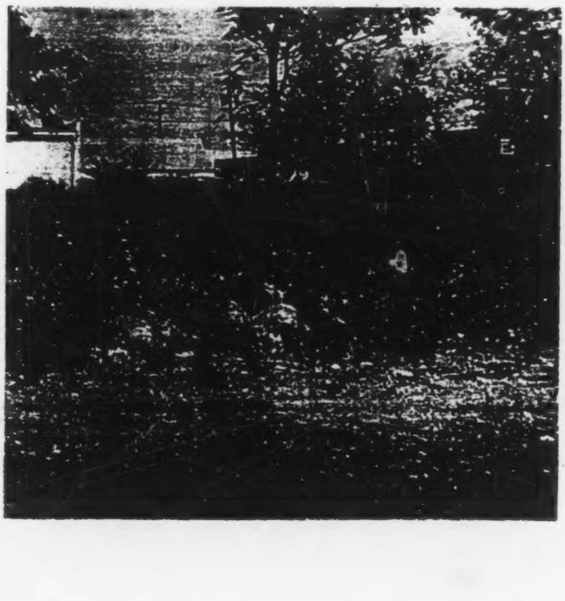
Over the past twenty years, Norwalk has been largely bypassed by the economic boom underway in surrounding areas of Fairfield County. As the "hole in the donut," the city acquired a reputation for policies unfavorable to economic development.

South Norwalk has paid an especially high price for the relative lack of business interest. According to census figures, the population of Tracts 441 and 445 have declined by approximately 20 percent and 15 percent respectively since 1970. In 1970 the median family income of Census Tracts 419 and 423 measured only 58 percent and 68 percent of the city-wide median family income. (These 1970 census tracts approximates the 1980 tract areas.) Unemployment rates for 1980 in census tract 445 was more than twice the city-wide unemployment rate. Of the 79 tax delinquent parcels recorded by the tax collector in 1982, approximately 20 percent of those parcels are within the proposed enterprise zone.

A variety of factors have deterred investors and entrepreneurs from starting businesses in South Norwalk. Among the foremost problems has been their difficulty in obtaining permits and approvals to construct or improve buildings in South Norwalk. Seven governmental bodies, each with separate forms and each located in separate buildings, have had oversight over steps in the development process. Tough zoning restrictions have also persuaded developers to look to surrounding cities.

Beyond problems with red tape, entrepreneurs have been deterred by actual and perceived problems with crime in South Norwalk, by the blighted appearance of neighborhoods, and by local taxes that must be paid before a new firm becomes profitable.

The lack of new businesses in South Norwalk, in turn, hurts the viability of existing firms. As retail and commercial properties go unoccupied by start-up firms, the deteriorating appearance of South Norwalk discourages shoppers from buying in the present stores. Jobseekers suffer from the lack of new employers and from the decline in the strength of existing retailers.



Concerted efforts by the city to improve conditions in South Norwalk began in 1978, the first year that Norwalk qualified for EDA assistance. Overall progress, however, has been slow. Although new employment has been generated in retail trade and services, it has for the most part occurred outside the South Norwalk area. Within South Norwalk, major retail establishments have continued to decline. The Washington Street renovation and the proposed Maritime Center are heartening signs of interest by major developers in the area, but their financial viability remains in doubt.

Community organizations have also undertaken efforts to improve South Norwalk, although their ability to sustain strong initiatives is now also under question. Neighborhood organizations such as the South Norwalk Association for Progress and Norwalk Economic Opportunity Now, Inc., have been fighting an uphill battle as funding and manpower sources wane. Past attempts by Neighborhood Housing Services, Inc., a nonprofit group formed to help South Norwalk neighborhoods improve their living environment and stimulate investments, yielded few visible results.

South Norwalk has frustrated traditional approaches to stimulating revival. Intertwined economic and community problems have restricted opportunities for entrepreneurs to bring new jobs and investments to the area. The future for South Norwalk remains bleak unless effective alternative approaches are applied.

EMERGENCE OF A RESPONSE

The Enterprise Zone Idea

A new tool for resolving problems of urban distress has emerged in the United States and Great Britain. Called the enterprise zone, its purpose is to create a climate of opportunity for entrepreneurs in economically depressed areas.

The enterprise zone concept is different from past approaches to urban revival in several important ways. Rather than distribute government funds, it offers entrepreneurs an environment of reduced taxes and regulations. The benefits are available to *all* entrepreneurs who meet basic requirements. Moreover, incentives are offered without any delay to such businesses in the zone.

In conventional programs, paperwork delays and application uncertainties often deter small entrepreneurs from seeking benefits. Few new businesses have the paperwork skills, political allies, or financial strength to have good prospects of selection in the (lengthy) applications review process. Moreover, program administrators often have preferred to help a limited number of large established firms, rather than a large number of small clients, because servicing each client involves a high overhead cost.

By offering automatic and immediate benefits, enterprise zones are thus uniquely able to assist the small business sector— the mainspring of a healthy urban economy. Within areas of economic distress cities given enterprise zone designation will be able to offer small and large firms alike the benefit of unprecedented incentives to stimulate business activity.

In the past year, enterprise zones have moved from conceptual to legislative form. Fourteen states have passed enterprise zone legislation, and the Reagan Administration has joined a bipartisan coalition of Congressional sponsors seeking a federal enterprise zone act. Thirteen enterprise zones have recently become operational in Britain, where they have stimulated substantial development.

Enterprise Zone designations are made on a competitive basis. Against vigorous competition, Norwalk was recently successful in obtaining a state designation. South Norwalk is thus able to offer strong new incentives to industry, and to begin planning for the federal application process.

State Incentives

In July of 1981, Connecticut became one of the first states to authorize state level incentives for urban enterprise zones. In the fall of 1982, the state proceeded to designate Norwalk as one of six state enterprise zones. Up to two contiguous census tracts could be designated as a zone if qualifying criteria were met. To be eligible for consideration in the competitive selection process, the state required that proposed zone populations have threshold levels of unemployment, poverty, or dependency upon public assistance.

Within a state-designated enterprise zone, businesses are eligible for a variety of benefits. These include:

- —a 50 percent corporation business tax credit for manufacturers locating or expanding in the zone.
- —a 100 percent freeze on increased property tax assessments for two years for improvements, followed by an assessment increase equal to 50 percent of the value of the improvement in the third year, and by 10 percent increases thereafter each year until full assessment was in place after the seventh year, and
- —an exemption from the state's 7.5 percent sales tax on repair and replacement parts for manufacturing firms.

In addition to these tax incentives, the state enterprise zone legislation offers subsidies for business development. These include:

- —loans to small businesses financed through a $1 million revolving fund.
- —a $1000 grant to eligible businesses for the creation of each new full-time job in the zone.

For a business to qualify for the state incentives, at least 30 percent of its workforce must consist of zone residents, or be CETA-eligible. Companies relocating operations from any highly distressed neighborhood into an enterprise zone will generally be excluded from enterprise zone benefits.

Federal Incentives

In March, 1982, the Reagan Administration introduced legislation to establish an experimental enterprise zone program in the United States. It has since attracted over 100 co-sponsors in the House of Representatives, and more than 30 in the Senate. Enactment is considered likely in the new session of Congress.

Under the terms of the leading enterprise zone bill, cities seeking zone designation must meet specific criteria concerning poverty, unemployment and other indicators of distress. The Secretary of HUD, in consultation with other federal departments, will designate up to 25 zones a year for the first three years of the program.

The program will offer federal tax and regulatory incentives designed to promote labor-intensive businesses and jobs for disadvantaged workers. Briefly, the major features of the Federal tax package are:

—a nonrefundable investment tax credit for capital investment in a zone. (3 or 5 percent for machinery or equipment, 10 percent for construction.)
—a nonrefundable employer credit of 10 percent of enterprise zone payroll (for existing businesses, this is 10 percent of the increase in payroll after the zone is designated).
—elimination of capital gains taxes on investment within zones.
--extension of the loss carryforward to up to 25 years — the life of the enterprise zone.
—a guarantee that industrial development bonds will continue to be available within zones.
—an employee personal income tax credit for wages earned in the zone: 5 percent up to a cap of $450.
—an employer credit for hiring disadvantaged workers equal to 50 percent of the worker's wage for 3 years, phasing out to 40 percent, 30 percent, 20 percent and 10 percent over the following four years. This credit has no cap, which gives the employer a major incentive to train disadvantaged workers for higher-wage jobs.
—state and local governments may together apply for the modification of federal regulations if such modification is in the public interest, would not overturn a statutory requirement, and would not present a risk to health, safety, or the environment.

The Administration's enterprise zone plan states that preference will be given to communities whose local commitments do most to

—reduce taxes
—improve service delivery, especially through private sector providers
—remove regulatory barriers
—and engage participation of community organizations.

In addition to these primary factors, lesser — but significant — weights will be given to the extent of economic distress, the evident prospects for zone success, and improvements in job training and infrastructure.

For employers and entrepreneurs, the combined state and federal incentives described above would be powerful inducements to expand business operations in South Norwalk. An enterprise zone in the city could save businesses up to three quarters of their federal income taxes, and reduce state income taxes by as much as half, depending upon the number of new jobs for the disadvantaged that were created.

The bottom line of the enterprise zone would be new jobs and investments in South Norwalk's most distressed neighborhoods.

KEY CONCERNS

In the fall of 1981, the newly-elected Norwalk Common Council put preparations for an enterprise zone among the city's highest priorities. Passage of the state legislation, and increasing support for enterprise zones in Washington indicated that the zones would be primary urban initiative of the 1980s.

Under the direction of the Norwalk Redevelopment Agency, a Task Force on Enterprise Zones was formed. Members reflected the broad range of interests and constituencies likely to participate in an enterprise zone. Representing the new city Administration were Mayor Thomas C. O'Connor, Council member and planning committee head Michael W. Lyons, councilman Thomas Szabo, and City Corporation Counsel John Ryan. Departments and agencies were represented by Rod Johnson and Jan Hannert of the Norwalk Redevelopment Agency and Joseph Tamsky, planning director of the Planning and Zoning Commission. Business and community leaders agreeing to participate included Robert Burgess, director of Norwalk Economic Opportunity Now, Councilwoman Doris Ross, Mark Sternlicht, president of the Wonder Corporation of America, James J. Grecco of South Norwalk Association for Progress, Thomas Gardella of Rex Marina, and Donald Lord of the Collins Development Corporation.

The overriding goal of the Task Force was to identify ways of stimulating economic development in the South Norwalk area on terms that benefit residents as well as businesses. Guided by Jan Hannert, the assistant director of the Norwalk Redevelopment Agency, the Task Force examined potential problems as well as opportunities that could arise from zone designation. Task Force members quickly became aware of several problems that would need to be resolved for the South Norwalk zone to succeed. Among these were:

-uncertainties about whether the tax and regulatory incentives alone would stimulate business expansion;

-risks of worsening strains upon the city budget if major expenditures were needed to improve services, infrastructure, and amenities within the zone; and

-the threat that residents would be displaced by rising property values as the enterprise zone became attractive to investors.

South Norwalk has developed a strategy to overcome such potential problems. Three key ingredients are envisaged by the Task Force to ensure that the zone benefits businesses, the city government, and disadvantaged residents alike:

1) A comprehensive approach to reducing deterrents to business expansion.

A cornerstone of the South Norwalk enterprise zone will be an effort to reduce barriers to investment and employment on an across-the-board basis. In particular, the zone will work to reduce problems of crime, inadequate infrastructure and basic services, and unsightly neighborhood appearance.

2) New roles for businesses and voluntary organizations in public improvements.

Through encouragement of new service delivery mechanisms, the South Norwalk enterprise zone will reduce fiscal demands upon the city budget that might otherwise arise from efforts to improve conditions. Contracting and neighborhood self-help can be highly economical ways to expand service provision, increase safety, and improve the appearance of areas.

3) Giving a "piece of the action" to residents of South Norwalk who cooperate in improving conditions.

To reduce risks of displacing residents as zone conditions improve, residents of the enterprise zone can be given opportunities to benefit from appreciation of property values. Creation of ownership interests in housing or sharing revenues from lease of city properties can be offered to residents who participate in block watches, neighborhood cleanups, and other self-help efforts that improve the attractiveness of the area to economic development.

An enterprise zone established on the basis of these principles can benefit all who have an interest in South Norwalk's revival.

PROGRESS TO DATE

Because Norwalk will compete against large cities for federal enterprise zone designation, the Task force has endeavored to put the city at the forefront of potential applicants in the quality of its "local commitment." The Department of Housing and Urban Development has declared its intention to make the strength of the local commitment the primary factor in awarding zone designations. Norwalk has gained state and national visibility for its local enterprise zone preparations

One of the first challenges facing the Task Force was to determine where the South Norwalk zone should be located. State legislation requires that zones generally follow the borders of existing census tracts. The Task Force quickly concentrated upon Census Tracts 441 and 445, covering approximately one square mile in the heart of South Norwalk. Unfortunately, investigation showed that one of the tracts failed to meet qualifying state criteria regarding population loss. Norwalk's community leaders urged state legislature to modify eligibility criteria, and the General Assembly amended the state enterprise zone law in order to allow Norwalk to include the additional census tract into the zone.

With the state designations secured, the Task Force's attention has been directed towards the substantive ingredients to implement the enterprise zone strategy. Proposed actions for the Task Force have been recommended by community and business leaders, by the Sabre Foundation and by Free Zone Authority Services, Inc., a nonprofit Washington based research group specializing in zone planning and operations.

In line with enterprise zone policy guidelines recently published by the Department of Housing and Urban Development, local actions have been initiated in four principal areas:

1. Regulatory relief/administrative streamlining

To relieve problems of red tape and regulation Norwalk has taken its first steps to transform the permit application process into a one-stop mechanism. In early summer, a resolution was passed by the planning committee requiring that the mayor appoint a business ombudsman to fast-track the permitting and licensing process. A related opportunity to relieve problems with red tape is now also being explored. At present, fire, health, and building inspectors can slow up business projects by being inaccessible at critical times. By cross-training inspectors, a single individual can perform multiple functions. By extending such reforms on a city-wide basis, the benefits of an enterprise zone environment can be felt throughout Norwalk.

2. Neighborhood organization support

Another area of accomplishment of the city prior to enterprise zone designation has been in formation of neighborhood "block watches." Recognizing that crime and the perception of crime are serious barriers to South Norwalk's business revival, the Enterprise Zone Task Force has taken a lead role in organizing crime watch programs. Experiences in other communities have shown that block watches can reduce crime by 50 percent or more, and substantially increase property values. Within days of its activation, one of the first block watches notified police about a break-in of a store while it was occurring, resulting in apprehension of a suspect.

3. Service improvements through private sector involvement

In the spirit of expanding business and neighborhood organization responsibilities within the zone, South Norwalk has also activated an "adopt a park" program. Civic organizations have agreed to shoulder responsibility for other services historically provided by the city. In addition, Norwalk Economic Opportunity Now (NEON) has begun to establish a "job brokerage" service to meet the need of local employers for temporary and seasonal workers.

4. Tax relief

On July 13, Norwalk became the first community in the state to enact a local enterprise zone ordinance. The ordinance offers tax relief for improvements to residential and commercial properties within the zone. This relief exempts properties from increased assessments on the value of their improvements for two years after the date of the improvements, and then would phase in the higher assessment over the next five years. In October, 1982, the Common Council activated the tax incentives after Norwalk received state designation.

While recognizing the benefits of private and community action in achieving a successful enterprise zone, the South Norwalk Task Force has also recognized the need for municipal action. To assist in revival of the South Norwalk area, the city will construct the Ely Avenue Bypass, a $4.1 million project. Other municipal actions in support of enterprise zone success will include improvement of sewers and drainage systems, coordination of job training programs, targeting of housing rehabilitation funds, expansion of parking areas, and creation of new park space along the waterfront.

South Norwalk's commitment to building an effective enterprise zone has prompted notice at the state and national level. At enterprise zone hearings before the House Banking, Finance, and Urban Affairs Committee in July, 1982, Norwalk was one of a handful of communities invited to testify on its progress to date. Praising Norwalk for a "fabulous" presentation, Rep. Stewart McKinney (R.-Westport) said that he felt the presentation demonstrated that Norwalk "really thought this (enterprise zone) out." When the state announced its readiness to consider applications for designation, South Norwalk's request was submitted within days.

WHAT COMES NEXT

Although South Norwalk has made substantial headway in its preparations for an enterprise zone, important milestones remain ahead.

Even prior to the receipt of the state designation, the Enterprise Zone Task Force embarked upon preparations for an operational zone. Members of the Task Force, supported by the professional staff of the Norwalk Redevelopment Agency, have initiated information exchanges and meetings with a wide range of potential participants to assess their interests and roles. New efforts to expand block watches and neighborhood self-help capabilities are underway. Contractual techniques will be explored for harmonizing land uses and minimizing adverse effects to the environment, as well as opportunities for contracting of local services and further streamlining of unproductive regulations.

A primary near-term goal of the Task Force is to identify an appropriate management organization for the enterprise zone. Building upon initial analyses of administrative options conducted in recent months, the Task Force is now beginning to explore the zone management capabilities of a Local Development Corporation. Like similar nonprofit corporations elsewhere, an LDC could prove helpful in financing improvements, managing properties, and marketing the zone to industry.

Having received a state designation, the South Norwalk enterprise zone is eligible to compete for federal designation under the terms of the Administration bill. Towards this end, the Enterprise Zone Task Force will fully document the economic need of the area and its eligibility under the federal legislation. Equally important, it will work to strengthen the city's incentives and other elements of its local commitment. A key objective will be to expand cooperation between zone businesses and residents. One option to be explored would encourage creation of self-assessing property owners associations within the zone, to undertake neighborhood improvements. Already, a leading developer in the area, the Collins Development Corporation, has expressed its willingness to financially support neighborhood groups engaged in enterprise zone cleanups and other self-help efforts.

Although passage of the federal enterprise zone legislation remains months away, the Enterpise Zone Task Force is committed to maintaining the "qualitative edge" of Norwalk's local commitment. HUD has emphasized its plans to award zone designations on the basis of such criteria as the strength of local tax incentives, private sector involvement in service delivery, deregulation, and participation by community groups. For South Norwalk to have a prospect of federal designation, it must maintain and extend its lead in building a local commitment.

HOW YOU CAN HELP

South Norwalk's enterprise zone has the potential to benefit everyone with an interest in the revival of distressed neighborhoods. To achieve success, however, support from the community is needed. Opportunities are already available for businesses and residents to contribute to the recovery of the area.

The Enterprise Zone Task Force invites you to participate in the following ways:

Businesses

- **Contact the Enterprise Zone Task Force regarding jobs and investments you can generate.**

South Norwalk's enterprise zone will succeed in proportion to its economic activity. If you are an employer or investor interested in the possible benefits of enterprise zones to your firm, please contact the Enterprise Zone Task Force. The Task force staff can provide detailed information regarding the types of benefits available to small and large businesses operating in an enterprise zone. The staff can also describe South Norwalk properties likely to be suitable for your operations. Call or write: Greg Dunn, Norwalk Redevelopment Agency, 35 S. Main Street, Norwalk, CT 06854, 203-838-7531 Ext. 310-311.

- **Join and become active in a local business association**

Associations of merchants and business people have already built a base for action to assist the economic revival of the area. If you are already an active member of one of these associations, become more involved. The modest costs or time invested in the associations can be repaid many fold through attraction of new shoppers to the area. For more information, call or write: James Grecco, Chairman, South Norwalk Association for Progress, 59 N. Main Street, Norwalk, CT 06854, 203-866-9666.

- **Support neighborhood and community self-help efforts.**

Because South Norwalk's climate for development depends upon a strong business/community partnership, the Task Force urges you to lend support to neighborhood self-help efforts underway in the area. Even small grants to community organizations can play a crucial role in their efforts to improve neighborhood appearance and safety. The Task Force will be pleased to provide a list of community based organizations cooperating in the zone improvement efforts. Call or write: Greg Dunn, Norwalk Redevelopment Agency, 35 S. Main Street, Norwalk, CT 06854, 203-838-7531.

- **Use South Norwalk's job service.**

Businesses can benefit directly from a referral service initiated by Norwalk Economic Opportunity Now, Inc. (NEON). The organization has established a job referral service to match local enterprise zone residents with businesses in the area. Already, Collins Development Corporation and other businesses have made commitments to work with the service in coming months. Contact: Robert Burgess or Donna Detrio, Norwalk Economic Opportunities Now, 98 South Main, Norwalk, CT 06854, 203-854-1800.

Residents

The South Norwalk enterprise zone has the potential to create a number of new job opportunities for residents of the area. To ensure successful economic revival, however, a number of barriers to business growth will need to be reduced. Acting through neighborhood and community based organizations, residents have the ability to greatly improve the safety and appearance of South Norwalk.

By joining your neighborhood or community organizations, you can help in your choice of a wide range of improvements. These include participation in neighborhood cleanups, crime watches, planting of trees and flowers, improved street lighting on the block, and tutoring or remedial services. All of these activities can make South Norwalk a better place in which to live as well as work.

The South Norwalk Enterprise Zone Task Force has the names of contact people in your area who are active in neighborhood improvement efforts, or who are willing to help such efforts get underway. Call or write: Greg Dunn, Norwalk Redevelopment Agency, 35 S. Main Street, Norwalk, CT 06854, 203-838-7531, Ext. 310-311.

...

All Norwalk will benefit from a healthier economic environment in the most distressed part of the city. As conditions in South Norwalk improve, property values will rise. The strengthening of the local tax base that results will relieve fiscal pressures upon the city, and thus benefit taxpayers throughout the community.

South Norwalk has embarked upon a new road to economic revival. Ahead will lie benefits for all who have an interest in the city's future. Your support is welcomed in making the most of the opportunity.

CITY OF NORWALK

Thomas C. O'Connor, Mayor

NORWALK REDEVELOPMENT AGENCY

Russell Frost III, Chairman
Clifford E. Barton
Jennie F. Cave
Rollo Giannini
Willie Moorer

ENTERPRISE ZONE TASK FORCE

Robert Burgess, Norwalk Economic Opportunity Now, Inc.
Gregory Dunn, Norwalk Redevelopment Agency
Thomas Gardella, Economic Development Commission
James J. Grecco, South Norwalk Association for Progress
Leonard Harris, Second Taxing District Water Department
Roderick C. Johnson, Norwalk Redevelopment Agency
C. Donald Lord, Collins Development Corporation
Michael W. Lyons, Common Council Planning Committee
Doris Ross, Common Council, District B
John J. Ryan, Corporation Counsel
Mark Sternlicht, Wonder Corporation of America
Thomas Szabo, Common Council Ordinance Committee
Joseph Tamsky, Planning and Zoning Commission

Norwalk Redevelopment Agency
35 S. Main Street, Norwalk, CT 06854
(203) 838-7531

March 8, 1983

NORWALK, CONNECTICUT: CASE REVIEW OF AN ENTERPRISE ZONE

Date Zone Incentives Went Into Effect: December 1982, retroactive to October 1982.

Size of Zone: Two census tracts in a long run-down section adjoining the city's waterfront and cut off from the rest of the city by railroad tracks.

Zone Incentives: Combination of state and local incentives summarized in attached sheets. NOTE -- City has reprogrammed its computers so tax abatements are, as much as possible, automatic for businesses in the zone.

Other Commitments:
1) City has established a "one-step" building permit procedure in the zone and is now consolidating all other licensing;
2) City is completing construction on a long unfinished bridge into the zone, making the area more accessible to trucks;
3) City sought and received a Federal Urban Development Action Grant to renovate an "historic shopping district" within the zone -- construction almost completed;
4) City is targeting its Community Development money to the zone in the coming year;
5) City is organizing neighborhood block watches to attack crime in the zone;
6) City has established a residential challenge grant to encourage community activity in the zone -- most successful grant to date has been for a community gardens project;
7) City has initiated an "adopt a park" program as part of an effort to privatize municipal services in the zone -- zone based company's take over the maintenance of parks near their facilities.

What Was the Area Like Before the Zone Was Established:
-- Total population as of the 1980 census 5638; 78 percent minority and 44 percent female headed households;
-- Store vacancy rate was 50 percent;
-- Unemployment rate exceeded national, state and local averages;
-- Population loss more than 20 percent in the 1970's;
-- Businesses closing down.
-- Total jobs in zone as of December 1982, approximately 5,000.

What Has Been the Impact Of the Zone:
-- Jobs created as a result of zone effort: 105;
-- Jobs maintained that were in danger of being lost: 845-945;
-- Jobs that are likely to be created in the near future: 315-320.

NOTE -- Virtually all the new jobs in the zone are said to have gone to zone residents.

NOTE -- New jobs have been created by businesses in the zone expanding or by new businesses opening, not, so far, by businesses moving from elsewhere. A large employer in the zone, an apparel accessories manufacturer, ended speculation that it might leave the area by purchasing its leased location and announcing it would soon add 100 jobs -- management credited zones incentives with influencing their decision.

HOW CAN THE ENTERPRISE ZONE HELP THE HOMEOWNER AND TENANT?

THE FOLLOWING ASSISTANCE, INCENTIVES AND PROGRAMS WILL BE AVAILABLE TO YOU IF YOU OWN A HOME OR LIVE WITHIN THE ENTERPRISE ZONE. SOME OF THESE PROGRAMS ARE ALREADY IN PLACE. OTHERS WILL BE ACTIVATED IF AND WHEN NORWALK RECEIVES DESIGNATION AS AN ENTERPRISE ZONE.

1) TAX ABATEMENT ON THE IMPROVEMENTS TO REAL PROPERTY WITHIN THE ENTERPRISE ZONE IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

YEAR	% TAX ABATEMENT
1	100%
2	100%
3	50%
4	40%
5	30%
6	20%
7	10%

2) RESIDENTIAL REHABILITATION AND ENERGY PROGRAMS
LOW INTEREST LOANS FOR HOME IMPROVEMENTS AND ENERGY CONSERVATION IMPROVEMENTS ARE CURRENTLY AVAILABLE FOR OWNER OCCUPANTS AND INVESTOR OWNERS OF ENTERPRISE ZONE PROPERTIES.

3) NEIGHBORHOOD PAINTING PROGRAM GRANTS OF UP TO $200 PER STRUCTURE ARE AVAILABLE FOR EXTERIOR PAINTING OF ALL ENTERPRISE ZONE AREA STRUCTURES.

4) NEIGHBORHOOD BLOCK WATCH ACTIVITIES ARE BEING ORGANIZED TO INCREASE THE SAFETY OF YOUR PERSON AND POSSESSIONS AND HELP TO MAKE THE AREA BETTER. YOUR INVOLVEMENT AND SUPPORT ARE NEEDED TO MAKE THIS PROGRAM EFFECTIVE.

5) NEIGHBORHOOD MEDIATION IS BEING CONSIDERED AS A FURTHER MEANS OF IMPROVING THE LIVABILITY OF THE ENTERPRISE ZONE. YOUR INTEREST AND INPUT REGARDING THIS APPROACH TO MINOR CONFLICT RESOLUTION IN THE ENTERPRISE ZONE NEIGHBORHOODS IS NEEDED.

6) NEIGHBORHOOD ORGANIZATIONS AND RESIDENT ASSOCIATIONS WILL BE EMPHASIZED IN THE ENTERPRISE ZONE. YOUR EFFORTS MAY BE MATCHED WITH COMMUNITY DEVELOPMENT FUNDS, PRIVATE FUNDING AND CAPITAL PROJECTS TO BRING ABOUT THE NECESSARY IMPROVEMENTS IN YOUR NEIGHBORHOOD,
SPECIAL SERVICES DISTRICTS

7) JOBS: MANUFACTURERS WILL BE ENCOURAGED TO EMPLOY RESIDENTS OF THE ENTERPRISE ZONE IN ORDER TO RECEIVE INCENTIVES PROVIDED UNDER THE PROPOSED ENTERPRISE ZONE PROGRAM.

8) JOB TRAINING OPPORTUNITIES AND PROGRAMS WILL BE TARGETED TO ENTERPRISE ZONE HOMEOWNERS AND TENANTS.

FOR FURTHER INFORMATION ON ENTERPRISE ZONE BENEFITS AS THEY PERTAIN TO HOMEOWNERS AND TENANTS PLEASE CONTACT:

GREG DUNN
NORWALK REDEVELOPMENT AGENCY
35 SOUTH MAIN STREET
SOUTH NORWALK, CT 06854
(203) 838-7531 EXT 310

9) EXEMPTION FROM THE STATE'S 1/2% REAL ESTATE CONVEYANCE TAX

HOW CAN THE ENTERPRISE ZONE HELP THE SMALL BUSINESS?

THE FOLLOWING INCENTIVES AND PROGRAMS WILL BE AVAILABLE TO YOU IF YOU MOVE INTO OR EXPAND WITHIN THE PROPOSED ENTERPRISE ZONE. SOME OF THESE PROGRAMS ARE ALREADY IN PLACE. OTHERS WILL BE ACTIVATED IF AND WHEN NORWALK RECEIVES DESIGNATION AS AN ENTERPRISE ZONE.

1) TAX ABATEMENT ON THE IMPROVEMENTS TO REAL PROPERTY WITHIN THE ENTERPRISE ZONE IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

YEAR	% TAX DEFERMENT
1	100%
2	100%
3	50%
4	40%
5	30%
6	20%
7	10%

2) CUSTOMIZED JOB TRAINING BENEFITS IF YOU PARTICIPATE IN THIS CONNECTICUT LABOR DEPARTMENT PROGRAM.

3) CAPITAL FORMATION REVOLVING LOAN FUNDS WILL BE AVAILABLE TO NEW AND EXISTING/EXPANDING SMALL COMMERCIAL BUSINESSES IN THE ENTERPRISE ZONE AREA THROUGH THE STATE DEPARTMENT OF ECONOMIC DEVELOPMENT.

4) PHASED INCREASED ASSESSMENT ON LOCAL PROPERTY TAXES FOR PROPERTIES WITHIN THE WASHINGTON STREET HISTORIC DISTRICT.

5) NEIGHBORHOOD PAINTING PROGRAM GRANTS OF UP TO $200 PER STRUCTURE ARE AVAILABLE FOR EXTERIOR PAINTING OF ALL ENTERPRISE ZONE AREA STRUCTURES.

6) A LOCAL DEVELOPMENT CORPORATION IS CURRENTLY BEING FORMED WHICH WILL MAKE AVAILABLE LOW INTEREST BUSINESS LOANS THROUGH THE SMALL BUSINESS ADMINISTRATION.

7) THE SMALL BUSINESS COUNCIL OF THE GREATER NORWALK CHAMBER OF COMMERCE HAS BEEN RECENTLY ACTIVATED. THE SMALL BUSINESS COUNCIL WILL BE AVAILABLE FOR PROVISION OF TECHNICAL ADVICE AND SUPPORT TO SMALL BUSINESSES(UNDER 500 EMPLOYEES) WITHIN THE ENTERPRISE ZONE.

8) SCORE (SERVICE CORP OF RETIRED EXECUTIVES) IS A SMALL BUSINESS ASSOCIATION AFFILIATE WHICH IS AVAILABLE TO ADVISE SMALL BUSINESSES AND ASSIST WITH PROBLEMS.

9) INVESTMENT TAX CREDITS FOR RENOVATION MAY BE AVAILABLE DEPENDING ON AGE OF STRUCTURE AND EXTENT OF RENOVATION THAT IS DONE.

10) TARGETED JOBS CREDITS ARE CURRENTLY AVAILABLE THROUGH THE FEDERAL GOVERNMENT FOR HIRING MEMBERS OF TARGETED GROUPS.

FOR FURTHER INFORMATION ON ENTERPRISE ZONE BENEFITS AS THEY PERTAIN TO SMALL BUSINESSES PLEASE CONTACT:

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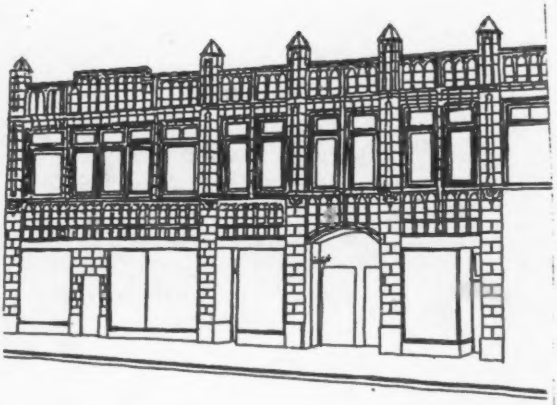
NORWALK REDEVELOPMENT AGENCY
35 SOUTH MAIN STREET
SOUTH NORWALK, CT 06854
(203) 838-7531 EXT 310



North Main Street
South Norwalk

HOW CAN THE ENTERPRISE ZONE HELP THE MANUFACTURER?

THE FOLLOWING INCENTIVES AND PROGRAMS WILL BE AVAILABLE TO YOU IF YOU MOVE INTO OR EXPAND WITHIN THE PROPOSED ENTERPRISE ZONE. SOME OF THESE PROGRAMS ARE ALREADY IN PLACE. OTHERS WILL BE ACTIVATED IF AND WHEN NORWALK RECEIVES DESIGNATION AS AN ENTERPRISE ZONE.

1) TAX ABATEMENT ON REAL AND PERSONAL PROPERTY IS CURRENTLY AVAILABLE FROM THE STATE DEPARTMENT OF ECONOMIC DEVELOPMENT IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

YEAR	% TAX DEFERMENT
1	80%
2	80%
3	80%
4	80%
5	80%

2) STATE CORPORATE BUSINESS TAX CREDIT OF 25% IS ALLOWED FOR EACH OF 10 YEARS AGAINST INCOME GENERATED BY A MANUFACTURING FACILITY. THIS CREDIT IS INCREASED TO 50% WITHIN THE ENTERPRISE ZONE IF 30% OF THE EMPLOYEES OF THE MANUFACTURING FACILITY ARE RESIDENTS OF THE ZONE.

3) JOB INCENTIVE GRANTS OF $500 FOR EACH ADDITIONAL FULL-TIME EMPLOYEE OF A MANUFACTURING FACILITY (ABOVE AVERAGE EMPLOYMENT LEVEL FOR PRECEEDING TWO CALENDAR YEARS). THIS GRANT IS INCREASED TO $1,000 PER JOB WITHIN THE ENTERPRISE ZONE IF 30% OF THE EMPLOYEES OF THE MANUFACTURING FACILITY ARE RESIDENTS OF THE ZONE.

4) OTHER URBAN JOBS PROGRAM BENEFITS AVAILABLE THROUGH THE STATE DEPARTMENT OF ECONOMIC DEVELOPMENT.

5) EMPLOYMENT INCENTIVE LOAN PROGRAM WHICH PROVIDES BELOW MARKET INTEREST RATE LOANS TO FINANCE WORKING CAPITAL NEEDS FOR MANUFACTURERS.

6) CAPITAL FORMATION REVOLVING LOAN FUNDS WILL BE AVAILABLE TO NEW AND EXISTING/EXPANDING MANUFACTURERS IN THE ENTERPRISE ZONE AREA THROUGH THE STATE DEPARTMENT OF ECONOMIC DEVELOPMENT.

7) TARGETED JOBS CREDITS ARE CURRENTLY AVAILABLE THROUGH THE FEDERAL GOVERNMENT FOR HIRING MEMBERS OF TARGETED GROUPS.

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9) INVESTMENT TAX CREDITS FOR RENOVATION MAY BE AVAILABLE DEPENDING ON AGE OF STRUCTURE AND EXTENT OF RENOVATION THAT IS DONE.

10) A LOCAL DEVELOPMENT CORPORATION IS CURRENTLY BEING FORMED WHICH WILL MAKE AVAILABLE LOW INTEREST LOANS THROUGH THE SMALL BUSINESS ADMINISTRATION.

11) CUSTOMIZED JOB TRAINING BENEFITS IS YOU PARTICIPATE IN THIS CONNECTICUT LABOR DEPARTMENT PROGRAM.

FOR FURTHER INFORMATION ON ENTERPRISE ZONE BENEFITS AS THEY PERTAIN TO MANUFACTURERS PLEASE CONTACT:

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NORWALK REDEVELOPMENT AGENCY
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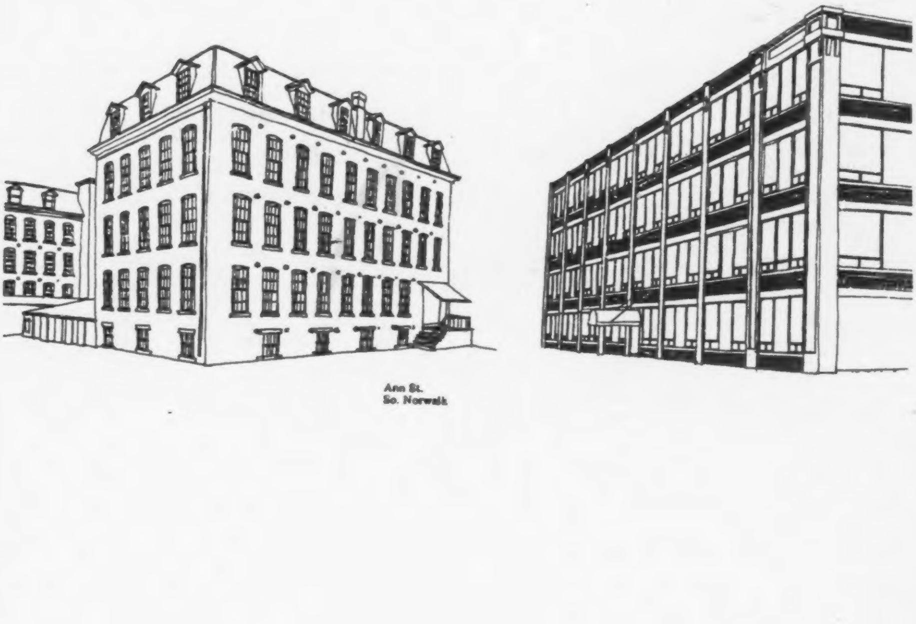

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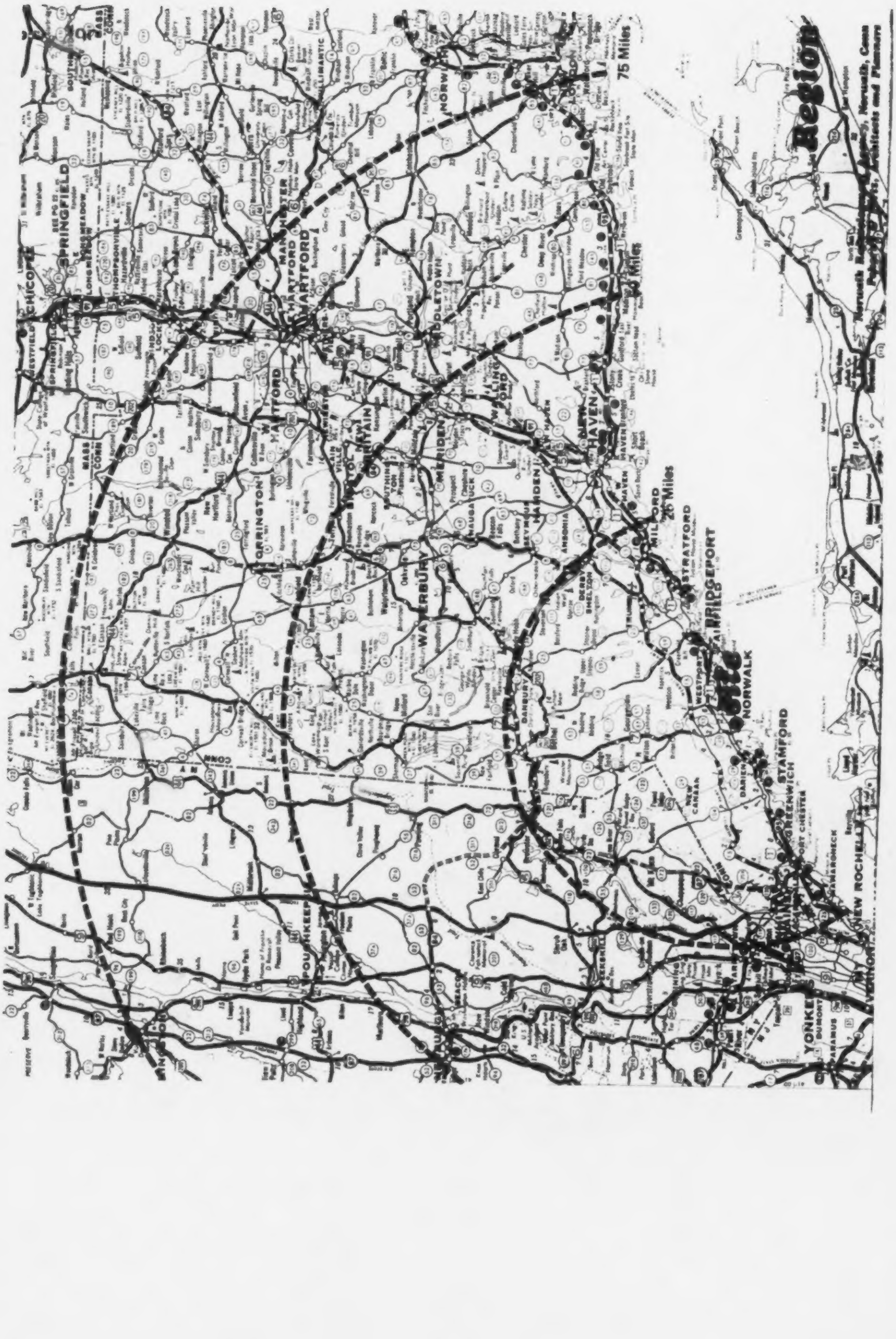
So. Norwalk


Region
Norwalk Redevelopment Agency, Norwalk, Conn
Architects and Planners
26 Miles
50 Miles
75 Miles
Site
SPRINGFIELD
CHICOPEE
HARTFORD
W HARTFORD
MANCHESTER
TORRINGTON
BRISTOL
NEW BRITAIN
WATERBURY
MERIDEN
MIDDLETOWN
WALLINGFORD
NORWICH
NEW LONDON
NEW HAVEN
HAMDEN
ANSONIA
DERBY
SHELTON
NAUGATUCK
DANBURY
MILFORD
STRATFORD
BRIDGEPORT
FAIRFIELD
WESTPORT
NORWALK
DARIEN
STAMFORD
GREENWICH
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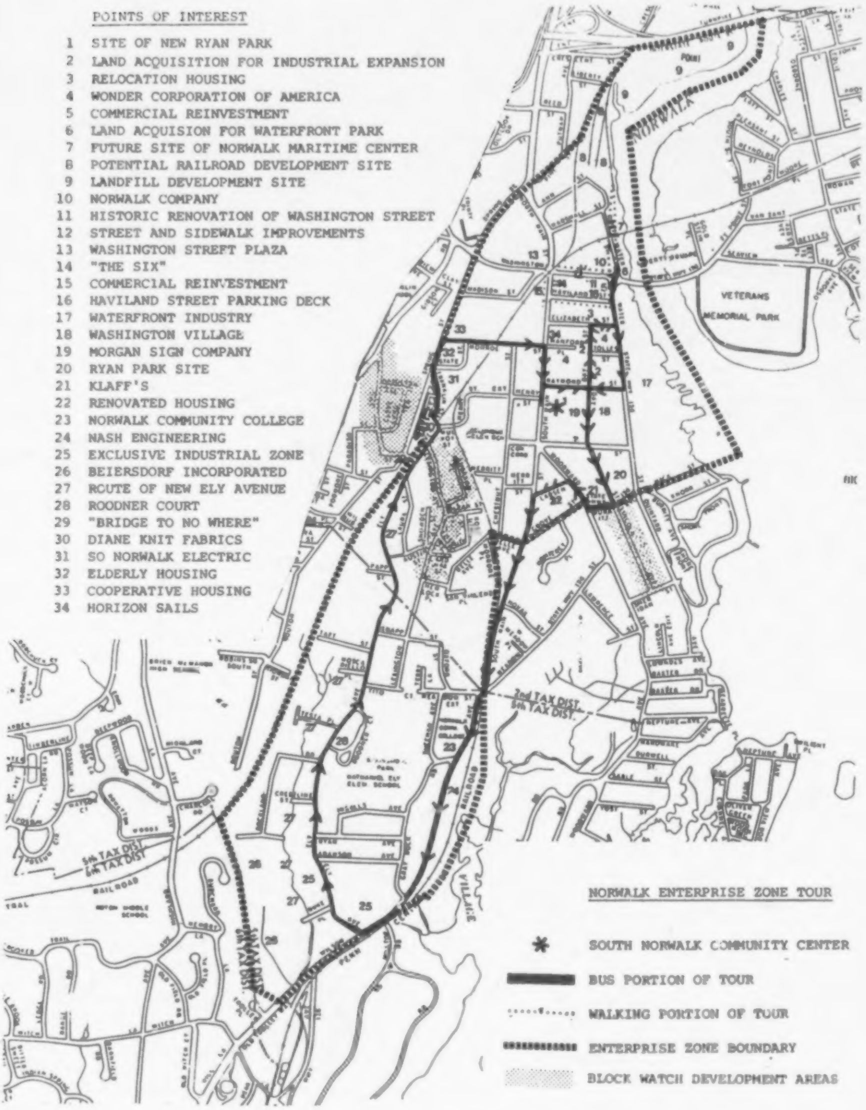
BEACON
PEEKSKILL
MASS
CONN



POINTS OF INTEREST

1	SITE OF NEW RYAN PARK
2	LAND ACQUISITION FOR INDUSTRIAL EXPANSION
3	RELOCATION HOUSING
4	WONDER CORPORATION OF AMERICA
5	COMMERCIAL REINVESTMENT
6	LAND ACQUISION FOR WATERFRONT PARK
7	FUTURE SITE OF NORWALK MARITIME CENTER
8	POTENTIAL RAILROAD DEVELOPMENT SITE
9	LANDFILL DEVELOPMENT SITE
10	NORWALK COMPANY
11	HISTORIC RENOVATION OF WASHINGTON STREET
12	STREET AND SIDEWALK IMPROVEMENTS
13	WASHINGTON STREET PLAZA
14	"THE SIX"
15	COMMERCIAL REINVESTMENT
16	HAVILAND STREET PARKING DECK
17	WATERFRONT INDUSTRY
18	WASHINGTON VILLAGE
19	MORGAN SIGN COMPANY
20	RYAN PARK SITE
21	KLAFF'S
22	RENOVATED HOUSING
23	NORWALK COMMUNITY COLLEGE
24	NASH ENGINEERING
25	EXCLUSIVE INDUSTRIAL ZONE
26	BEIERSDORF INCORPORATED
27	ROUTE OF NEW ELY AVENUE
28	ROODNER COURT
29	"BRIDGE TO NO WHERE"
30	DIANE KNIT FABRICS
31	SO NORWALK ELECTRIC
32	ELDERLY HOUSING
33	COOPERATIVE HOUSING
34	HORIZON SAILS

NORWALK ENTERPRISE ZONE TOUR

*	SOUTH NORWALK COMMUNITY CENTER
▬	BUS PORTION OF TOUR
┈	WALKING PORTION OF TOUR
▪▪▪	ENTERPRISE ZONE BOUNDARY
▨	BLOCK WATCH DEVELOPMENT AREAS

PROJECTED ENTERPRISE ZONE BENEFITS PERTAINING TO TRUDY TOYS

Property Tax Abatement on Industrial Property Within an Enterprise Zone

Land $ 275,000
Building $2,335,000
$2,610,000 = market value
X.70
$1,827,000 = assessed value

Building completion 10/01/85

Year 1 - 1,827,000 X .028 = 51,156 X .80 = 40,925
Year 2 - 1,827,000 X .029 = 52,983 X .80 = 42,386
Year 3 - 1,827,000 X .031 = 56,637 X .80 = 45,310
Year 4 - 1,827,000 X .034 = 62,118 X .80 = 49,695
Year 5 - 1,827,000 X .036 = 65,772 X .80 = 52,618

Taxes Abated	Taxes Paid
230,934	10,231
	10,597
	11,327
	12,423
	13,154
	$57,732

- State Corporate Business Tax Credit For 10 years

Estimated State Corporate Business
Tax Payment for 1984 is $40,000

25% credit over 10 years

$40,000 X 10 years = 400,000 X .25 = $100,000

50% credit over 10 years

$40,000 X 10 years = 400,000 X .50 = $200,000

- Job Incentive Grants

$500 per job grant

$500 X 25 = $12,500

$1,000 per job grant

$1000 X 25 = $25,000

Exemption From Real Estate Conveyance Tax

$275,000 x $1.10 = $302.50

$275,000 x .005 = 1375.00

$1677.50

State Sales Tax Exemption on Replacement Parts on Machinery

$2,000 x .075 = $150 x 10 yrs. = $1,500

Industrial Revenue Bond Financing

IRB Financing will be requested through the Connecticut Development Authority's Self-sustaining Program. The interest cost will be significantly lower that conventional mortgage financing as the interest on the bond issue is tax exempt to the bondholders.

Enterprise Zone Benefits - Federal

Investment Tax Credit on Capital Investment Within an Enterprise Zone

10% for construction of industrial property

$2,33[illegible],000 x .10 = $233,500.

Elimination of Capital Gains Tax on Enterprise Zone Property

10% Tax Credit on Wages for New and Disadvantaged Workers

Mr. MATSUI. Thank you.

Mr. Carson.

STATEMENT OF JOHN J. CARSON, COMMISSIONER, CONNECTICUT DEPARTMENT OF ECONOMIC DEVELOPMENT

Mr. CARSON. Thank you, Mr. Chairman, and thank you, first, for allowing me to be here, and, No. 2, for accepting the testimony which I will save everyone time by not reading. But if I can, as a State official with 2½ years' experience, bring you comments, it would be that we still support the concept as we did before the Senate Finance Committee last year, of the creation of the enterprise zone program.

Connecticut does have one, as you know. We have had one since 1981, after initial legislation was passed; then we changed it in 1982 and modified it again in 1983. The reason I cite the flexibility of our program is to dispel the impression where people might say, well, if you are going to make changes, why do it? It is an experimental but worthwhile program, but it needs to be started at some point. We did it; we put a program in place, recognizing it would probably require changes.

We made changes as we got experience and as we received the concerns of local officials within the State of Connecticut.

Certainly, in the State, as our testimony indicates, it is working. For the first year we estimate that planned economic activity totaling $62 million, in 126 projects in the six zones within the State, will retain 2,000 jobs and create 1,300 new jobs. We think this program's results show that it does have impact. It does have benefits.

What in many cases the zone program does in Connecticut is breed a critical mass of investment. In a very targeted area all of a sudden State and local government focuses attention on an area with a number of development incentives; this builds a degree of interest and excitement within the community, that not only results in the economic numbers that I cited but also creates a mindset within the community, for the residents and businesses there, that something is happening and it may well be worth their while to remain and make continued investments.

We see a number of surprises based on our first year experience. One, despite the recession that continued in 1982, that in the projects we saw, you can call them mom-and-pop stores, small businesses, put $15 million of new plant or actual investments there. This indicates to us in Connecticut that there is a latent pool of indigenous investors or business pioneers already within those communities that we can work with.

Second, based on our experiences to date, it would appear that many of the new jobs that will be created will not necessarily be in traditional manufacturing but in the commercial retail and some technical kinds of businesses.

Three, we found that the statutory limitation on size requires that the zone be no larger than two contiguous census tracts, that the existence of a clear statutory limitation on the size has been a decided advantage for us and that it concentrates the investment both of public and private dollars into the areas our program is detailed to address and to those areas most in need.

It also, by concentrating in a discretely defined geographic area, not only generates new investments both public and private, but, we think goes a long way in supporting many of the prior public investments as well.

There are six questions the committee has asked the people to address, and I certainly will just address them in the briefest of terms, if I may.

One, in terms of defining geographic boundary and targeting, we certainly are comfortable with our program which has been using census tracts.

We filtered down from the situation where there were 19 communities eligible under our threshold criteria of certain levels of unemployment, poverty, and public assistance; went down to 14 of those 19 towns applying. There were 150 eligible census tracts. Certainly it is not the easiest political chore to make that decision, but even the legislators, knowing full well some of their communities would not receive this designation, were supportive. So I support the census tracts.

Tax incentives are just a piece of the total picture; they are certainly a part, and beneficial part, of an effective development program, certainly of this enterprize zone concept.

Consideration is certainly given to training credits and day care facilities credits; we have a State program in Connecticut providing to businesses a tax credit for on-site day care. Certainly when you realize that in our zones 14, and in some cases up to 44 percent of the households are headed by female single parents, that this is an additional tax incentive that may have some value in the consideration of a graduated personal income tax credit for employees entering the labor force.

We have not been able to assess the cost to the State of Connecticut because of the time, to date. But a rough estimate would be that the total State and local expenditures for every dollar based on this program and a prior program we have, I could say very comfortably, that for every public dollar either returned from the State to the local community or paid out directly or revenue forgone is yielding at least $10 in private investment.

Four, I think that certainly incentives have to be packaged with direct public grants. Again, we are prepared to provide those six communities with State funded public grants for various forms of infrastructure and industrial development.

Finally, I think it's certainly fair to target tax incentives as one development tool to specific geographic areas.

As I said earlier, our two State programs clearly targeted tax incentives to either a community or a group of communities, or in this case, the census tracts comprising our enterprise zones, which were not available to other parts of the State on the theory that what we were trying to do was raise these levels, most in need of economic revitalization, back up to a level of parity with other communities within our State. Therefore we encourage the committee to support the concept of enterprise zones.

It is my belief that there are tremendous experts on the staff of the Congress and staff of the executive branch and those of us willing to offer opinions at the State and local level that something could be done. We hope you look on this favorably. Thank you for your time.

Mr. MATSUI. Thank you, Mr. Carson.

[The prepared statement follows:]

STATEMENT OF JOHN J. CARSON, COMMISSIONER, CONNECTICUT DEPARTMENT OF ECONOMIC DEVELOPMENT

Chairman Rostenkowski, members of the Committee: My name is John J. Carson, and I am Commissioner of the Connecticut Department of Economic Development.

Connecticut testified before the Senate Finance Committee over a year ago that a Federal Enterprise Zone program trageting preferential tax incentives to needy urban neighborhoods would be a powerful inducement to investment and business creation in these areas. Connecticut can now proudly say that based on our first year's experience, the Urban Enterprise Zone concept is working and we have the numbers to prove it. From here it is starting to look like the ideal, all-round development tool for the 1980's. It creates a true and necessary partnership between the private and public sector in these days of diminishing direct federal fiscal support for community revitalization. We think that's a mistake by the way.

You know that Connecticut was first to launch its own state-designed and funded Enterprise Zone program. Our experience to date may offer some useful lessons, as you weigh Enterprise Zone legislative proposals. Just over a year ago, Governor William A. O'Neill designated six (6) Enterprise Zones in the communities of Hartford, New Haven, Bridgeport, New London, Norwalk and New Britain, classic examples of the traditional old-line New England industrial town. Results in the nine months or so that the program has been operational far exceed all our expectations.

Altogether, the 6 Connecticut Zones had attracted $62 million worth of planned industrial, commercial/retail and residential projects by the end of August, 1983 when we did our first official statewide tally. This sum represented 126 individual projects (half of which are commercial/retail) almost 2,000 jobs retained and nearly 900 new jobs. Our program will spur planned construction of 190 new dwelling units and rehabilitation of 155 older dwelling units, many of these in mixed-use buildings that formerly were the most difficult to finance privately or through conventional state or federal housing programs.

And if you object to the phrase "planned" investment, our records show that 47 of those projects, equalling $24 + million have already been completed, or construction begun, prior to July 1, 1983, a scant six (6) months dollars, or 52 projects, are scheduled for the next year. The attached Enterprise Zone Activity Update—September, 1983 and Project Timing chart five you a better idea of how these break down by community.

Success also seems to breed success. One of our Enterprise Zones in New London found developer competing with developer for a prime site in the middle of the Zone. The deal they negotiated (satisfying both their needs) attracted another choice office/park project across the street. What we see building here is a critical mass—of excitement—about our declining urban areas.

Since August, six more projects worth $3.4 million and 334 more new jobs have been announced including the $2 million office park just mentioned above. We're starting to see some momentum here and Connecticut is already examining our own legislation to see where we can keep that momentum going.

The mix of development activity we've seen partly resulted from a statutory requirement that each Zone contain commercially and industrially zoned land. Each municipality was allowed to select its own area within fairly broad statutory guidelines, and the clearly and differing agendas in mind. Some are primarily looking for housing development or a mix of housing and commercial or industrial activity. Some offer the industrial developer ample opportunities in both land and buildings. Connecticut's law allowed the local community the freedom to design a Zone that met its own needs.

What have we learned from this experience? Some surprises here.

One—despite the recent recession, there were all kinds of small businessmen and women with dollars put away waiting for the right investment opportunities. They put a hefty $15 million, many in mom and pop establishments, into commercial/retail renovations. They went after the 7-year graduated local property tax abatement. That's a sign of confidence in the economy, their own community, and the Enterprise Zone concept we could not have predicted. And, in the old neighborhoods and downtowns where this occurred that investment will act to stabilize if not turn around whole neighborhoods. There's more than just money involved here. We're tapping a deep sense of home town pride and old fashioned initiative—the free enterprise that made New England the hub of American commerce for so long.

That attitude tends to spin off into a number of subtler social, psychological and eventually economic forces that together can account for real revitalization of our urban areas. Small business may be the economic tiger in our tank. The Federal Enterprise Zone tax incentives should accommodate the special needs of the entrepreneurial start-up firms and small businesses as well as it does the larger established firms.

Two—we wanted the Enterprise Zone program to create jobs particularly for the vast number of unemployed residents of the Zones. It will create jobs but perhaps not quite the way we anticipated. The reindustrialization we're likely to see in the Zones will be closer to the emerging industries, not the old industrial standbys, although they too should benefit. It looks like we're attracting a goodly number of service sector jobs here. Many of these jobs will not be accessible to our Zone residents and disadvantaged because of skill and education levels required. We'll need to open the jobs benefits to the service sector and use a carrot or two with enhanced training benefits to assure that some of those service sectors jobs are available for the Zones' unemployed. We also need some really creative thinking on the problems of the single-parent household—which have very special employment needs. Federal Enterprise Zone incentives for on-site or cooperative day care facilities may bring these people back into the work force where they want to be.

Three—Connecticut's statutory limitation on size—our Zones are comprised of no more than two Census Tracts—has been a decided advantage. First—it concentrates investments, both private and public, in a discrete, identifiable, manageable, and measureable area. That concentration permits the businesses, the residents and the local governments to see the changes occurring in their Zone. Were these investments scattered over a whole community they might lose their catalytic impact to attract other investments.

The amassed concentration of investments also creates its own rationale for infusing public funds, into expensive infrastructure projects so needed and so long neglected in some of these areas. In an Enterprise Zone small in definitely better.

Four—the simplicity of Connecticut's program, building on our proven Urban Jobs programs, has made it manageable, easy to control and monitor, utilized existing staff at both State and Local levels, (without a costly bureaucratic buildup), allowed us to retool various incentives with a minimum of effort, and finally made it easy for both large and small businesses to understand how it works.

Last—and this ties into the point just made about backing up private investments with public infrastructure improvements, the Enterprise Zone program marries private sector investment to the public sector's. It encourages a breadth of urban revitalization the public sector would never propose nor attempt on its own. Especially after the Federal Budget reductions we've experienced during the last three years in the very programs both we at the State and the municipal level have relied upon for rebuilding our cities.

We've never had so much to do and so little to work with. The Connecticut experience illustrates that the private sector will step into that fiscal gap and share the load with the right incentives. Enterprise Zones prove that a private-public partnership is eminently workable.

In answer to the issues you raised:

No. 1. The tying of Enterprise Zones to Census Tract boundaries enabled Connecticut cities to eliminate an expensive data gathering chore by using existing U.S. Census Bureau data. The 1990 Census will give all of us a baseline for measuring changes in the Enterprise Zones at many social, employment and economic levels.

No. 2. Tax incentives tied to employers' personal and property taxes should be extremely effective. The employer credit for hiring disadvantaged workers is good if you link it to a training credit and/or a day care facility credit. To encourage the disadvantaged to take a job and hold it, we would recommend a graduated personal income tax credit for employees (comparable to that you have recommended to employers on workers' wages) of 30 percent on the first year's wages, 20 percent on the second year's wages, and 10 percent on the third year's wages. The reduction in transfer payments, or unemployment compensation, plus the gain in productivity would more than offset the loss to the Federal treasury.

No. 3. In Connecticut, we will be unable to assess the total loss in local and state revenue for another year due to the start-up nature of the program and the lag time in seeing those reductions reflected in tax rolls. We tend to think the gains will far outweigh the losses.

No. 4. Incentives are probably going to result in a more efficient, prompt and well-managed expenditure of funds, both public and private. In most situations, the private sector usually can respond faster than can or should the public side. Federal Enterprise Zones probably cannot entirely obviate the need for direct grants, for infrastructure for example, in our most distressed areas. If incentives are structured to meet certain employment objectives head-on we'll see results.

No. 5. Industrial development bonds should not be restricted to Enterprise Zones. In Connecticut we have responsibly targeted IBD's to our neediest areas. It is one of our most useful tools, bringing $203 million of industrial projects into Connecticut in the first eleven (11) months of 1983.

No. 6. It would be unfair to ignore the degradation and decline exhibited in our older urban areas. Of course these areas deserve preferential tax treatment. These areas made an enormous contribution to the American economy not so many years ago. These tax benefits will encourage renewed energy, confidence and economic promise in these areas without which they will only continue to decline. As it says in the Bible, "For I mean not that other men be eased and ye burdened but by an equality that now, at this time, your abundance may be a supply for their want." We will all profit by helping these areas get back on their feet. In a great nation we can afford to help each other.

No. 7. One last thought to leave with you. We would recommend a time limit on designation of areas for several reasons. If Enterprise Zones work and the areas are small enough to see progress, eventually free market forces will take over the revitalization process. Enterprise Zone legislation will then have fulfilled its purpose. There are too many areas of the country that need this tool to restrict it forever to 75 Zones.

Thank you.

CONNECTICUT ENTERPRISE ZONE ACTIVITY UPDATE - SEPTEMBER, 1983

CITY	TOTAL PROJECTS	TYPE OF PROJECT				TOTAL INVESTMENT	INVESTMENT BY TYPE				PROJECTS & SPACE, BY TYPE		JOBS		
		Industr.	Comm/Ret.	Resid. (new du)	Mixed		Industr.	Comm/Ret.	Resid.	Mixed	New	Rehab (du)	Retained	New	Total
Bridgeport	25	5	15	5	-	$ 2,858,845	$2,509,900	$ 340,945	$ 8,000	-	9 18,156 ⏍	15 506,000 ⏍ (2 du)	45	2	47
Norwalk	62*	10	33	10 (14 du)	8	$16,106,276	$5,026,200	$ 6,803,268	$ 525,925	$ 3,750,883	15 158,600 ⏍	49 66,000 ⏍ (132 du)	1211	253	1464
New London	17	1	6	4 (6 du)	6	$22,683,000	$ 30,000	$ 2,072,000	$ 149,000	$20,432,000	5 371,807 ⏍	12 7,000 ⏍ (10 du)	271	78 578	349 849
New Britain	11	1	7	3 (175 du)	-	$14,187,950	-	$ 5,814,000	$8,373,950	-	2 38,210 ⏍	10 165,750 ⏍ (9 du)	362	272	517
New Haven	2	-	-	-	2	$ 6,100,000	-	-	-	$ 6,100,000	1 60,000 ⏍	1 (2 du)	4	203	207
Hartford	9	6	3	-	-	$ 824,300	$ 362,000	$ 457,300	-	$ 5,000	2 30,000 ⏍	4 11,400 ⏍	95	27	122
STATE TOTALS	126	23	64	22	16	$62,760,371	$7,928,100	$15,487,513	$9,056,875	$30,287,883	34 586,863 ⏍	90 756,150 (155 du)	1988	835 1335	2706 3206

* includes a public non-profit community center

AS OF 9/28/83
& CORRECTED 10/25/83

CCC/mat

TIMING OF ENTERPRISE ZONE PROJECTS

We are preparing a breakdown of the timing of Enterprise Zone investments by category and city that should be available in the next few weeks. The State totals break down as follows:

Timing of project	Construction begun or project completed	Amount of investment
Connecticut fiscal year 1982–83 (Oct. 8, 1982, date of designation, to June 31, 1983)	47	$24,002,348
Connecticut fiscal year 1983–84 (July 1, 1983 to June 31, 1984)	52	10,204,300
Connecticut fiscal year 1984–85 and beyond (July 1, 1984 to . . .)	26	28,553,723
Value of total Connecticut investments		62,760,371

Mr. MATSUI. Mr. Burnham.

STATEMENT OF PETER B. BURNHAM, EXECUTIVE VICE PRESIDENT, TRUDY TOYS CO., INC., NORWALK, CONN.

Mr. BURNHAM. Mr. Chairman and members of the committee, I would also like to mention the representative from our fair State, Mrs. Kennelly, it is a great honor to be asked to testify before this committee concerning Federal participation in enterprise zones.

My brother, William W. Burnham, president and co-owner of Trudy Toys, regrets that he is unable to attend this hearing on such short notice.

Trudy Toys Co., Inc., is a small business engaged in the manufacturing and marketing of stuffed plush toys or, in more recognizable words, teddy bears, donkeys, and elephants, to name a few. We are a highly competitive industry which has experienced bankruptcies and plant closings in recent years. Most of our competition has chosen to go offshore and import primarily from the Orient.

Our production operations are labor-intensive and rely primarily on unskilled labor. Our type of industry, therefore, is ideally suited for location in an enterprise zone because we offer the type of jobs enterprise zone residents need most, namely, entry-level manufacturing jobs.

Because we operate in an extremely competitive industry, Trudy Toys must remain extremely vigilant and seek every avenue possible to contain costs and remain competitive.

We have undergone a tremendous amount of growth recently and must move from our cramped facilities. The city of Norwalk has some special problems for industry which are quite different from many enterprise zones. Land prices are exhorbitant for industrial use, so much so that relocating in Norwalk to a larger facility was initially considered improbable for us. The advent of the Norwalk enterprise zone changed the entire picture because the tax incentives offered by state and local governments were almost enough to offset the premium price we have to pay for land in the area.

Essentially, if the State of Connecticut and the city of Norwalk did not have these tax incentives, we could not afford to stay in Norwalk and would have had to move and cause a local loss of jobs.

We must also deal with such factors that do not exist in the usual industrial environment, such factors as higher fire insurance rates, building security problems, security and safety of our employees, which are mostly women, and other problems of this type when we locate in a distresed area. This is where we feel we may need some help. I don't have any numbers to identify what these costs may be, but we know that they are very real.

The decisions involved in a move such as we are making are very complex and require much thought. It is because the differences in all the literally hundreds of thousands of business decisions going on all over the country are so great that I believe the most fruitful method to create jobs in economically distressed areas is to induce private enterprise to move their facilities into the hearts of these areas.

The best way to offer these inducements are to offer tax credits and/or tax abatement programs. The proposed tax investment credit for construction or rehabilitation of industrial facilities is particularly attractive, since the funds required for a facility in a labor-intensive industry such as ours is by far the greatest capital investment to be made. In our particular case the investment in real estate is more than ten times the investment that would be required in machinery and equipment.

An incentive that is not so much for employers but for employees is the consideration of a graduated welfare payment for public assistance recipients who find jobs but cannot afford to take the jobs because they lose income. On many occasions I have been told by young mothers that they cannot afford to go to work because the $600 a month gross wage they would earn at our company, when you remove the taxes, travel expenses to and from work, and babysitting expenses, they do not equal a typical $400 a month ADC payment. Companies would be benefited by having an increased labor pool of willing and able people if these mothers could go to work. The Government would benefit by reduced welfare and increased payroll taxes. The recipients would be benefited by holding on to a self-respecting job rather than just holding out their hands.

Thank you very much, Mr. Chairman.

Mr. MATSUI. Thank you, Mr. Burnham.

[The prepared statement follows:]

STATEMENT OF PETER B. BURNHAM, EXECUTIVE VICE PRESIDENT, TRUDY TOYS CO., INC., NORWALK, CONN.

Mr. Chairman, it is a great honor to be asked to testify before this committee concerning legislation for federal participation in Enterprise Zones. My brother, William W. Burnham, President and Co-owner of Trudy Toys regrets that he is unable to attend this hearing on such short notice.

Trudy Toys Co., Inc. is a small business engaged in the manufacturing and marketing of stuffed plush toys or in more recognizable words, teddy bears, donkeys, and elephants to name a few. The company was founded in the forties by an immigrant German and was acquired by the present owners in late 1979. In that time, our sales have grown approximately five fold and our employment has almost tripled.

Trudy Toys' products are sold throughout the United States to retail market such as major department stores, gift and stationary stores, and large chain stores. They are also sold to premium markets for sales incentives to promote the products or services of our customers. The stuffed toy industry is a highly competitive industry that has experienced many plant closings and backruptcies in recent years. Most of our remaining competition has chosen to go off shore and import their products primarily from the Orient. Consequently Trudy Toys is one of the few domestic manufacturers that remain in our industry.

Our production operations are labor intensive and rely primarily on unskilled labor. Our type of industry, therefore, is ideally suited for location in an Enterprise Zone because we offer the types of jobs Enterprise Zone residents need most, entry level manufacturing jobs.

The most highly skilled employees on our payrolls are sewing machine operators and air brush painters. These more highly skilled positions represent about 25 percent of our work force.

Because we operate in an extremely competitive industry, Trudy Toys management must remain extremely vigilant and seek every avenue possible to contain costs and remain competitive. Since our industry is labor intensive, the key to continued success is the continuing availability of an unskilled labor pool.

The City of Norwalk has problems for industry quite different from many Enterprise Zones. The zoning restrictions of the many bedroom communities in the area greatly reduce the amount of land available for industrial use. The remaining land that is available to industry has undergone tremendous price increases in response to large corporate headquarters development in areas surrounding New York City. Consequently, most companies are unable to locate in Norwalk because of highly inflated land costs. In our case, relocating in Norwalk to larger facilities was initially considered improbable for this reason.

The advent of the Enterprise Zone in Norwalk changed the entire picture for Trudy Toys because the tax incentives offered by state and local governments were enough to offset the premium price we have to pay for land in the area. With justification for the readily identifiable expenses of relocation within the City of Norwalk, i.e. the premium price for land in the area offset by the state and local tax incentive of the Enterprise Zone, the less easily identifiable costs such as employee loss and retraining associated with moving to a new area became the next most important factor in our decision. Essentially, if the State of Connecticut and the City of Norwalk did not have tax incentives, we could not afford to stay in Norwalk and would have had to move and cause a loss of jobs. Furthermore, an employer not already drawing from a labor pool near an Enterprise Zone such as the one in Norwalk has no reason to move into the Enterprise Zone since he must pay a premium price for the land to do so. What he needs is the extra incentive that the federal government can provide with a federal tax package.

One must also recognize the factors that prevent businesses from entering distressed areas or from staying in them. Fire insurance rates are higher, building security requires additional capital and operating expense, risk of serious business interruption is greater and employee safety problems are but a few of the factors that must be considered.

The issues involved are very complex and are quite different in one area when compared to another. I fully realize that the economic and safety considerations of a small business moving into the Enterprise Zone of the South Bronx in New York are quite different from the considerations we have undergone in moving to the Norwalk Enterprise Zone. It is because of these differences in all the hundreds of thousands of business decisions going on all over the country that I believe the most fruitful method to create jobs in economically distressed areas is to induce private enterprise to move their facilities into the heart of the distressed areas. And, the best way to offer those inducements are to offer tax credits and/or tax abatement programs that do not expend government funds until some result has been accomplished.

The proposed tax investment credit for Enterprise Zone occupants for construction or rehabilitation of industrial facilities is particularly attractive since the funds required for a facility in a labor intensive industry such as ours is by far the largest capital investment to be made. In our particular case, the investment in the real estate is more than ten times the investment that will be required in machinery and equipment.

Another important aspect to incentives for Enterprise Zone companies would be the continued availability of industrial development bonds to help finance construction or the purchasing of machinery. I feel an important addition would be federal government guarantees for these bonds to further reduce financing costs. However, a portion of the guarantee should fall upon the lending institution so that the lending process is done with care to minimize government losses.

Consideration should also be given to tax credits for wages paid to Enterprise Zone residents. I am a little wary of this type of credit because of the possibility of indiscriminate replacing of existing workers for tax credit purposes. While safeguards could be built into such a program to prevent this kind of problem, the regulations and bureaucracy required might result in another bureaucratic monster chewing up tax revenues.

An incentive that is not so much for employers but more for employees is to gradually reduce welfare payments when recipients find jobs so that they can afford to go to work. On many occasions I have been told by young mothers that they cannot afford to work because the $600 a month gross wage they would earn at our company would not equal a $400 a month ADC payment after taxes, travel expenses to and from work, and baby sitting expenses. It seems that welfare agencies could interview employers of recipients just as easily as they could interview the recipients themselves to administer such a program. Companies would be benefitted by having an increased labor pool of willing and able people. The government would benefit by reduced welfare payments and increased payroll taxes. And the recipients would be benefitted by holding on to a self respecting job rather than just holding out their hand.

In summary, the Enterprise Zone concept is an excellent one.

The Enterprise Zone started by the State of Connecticut and City of Norwalk is a good beginning but is not enough to induce companies outside the Norwalk area to move into the Norwalk Enterprise Zone, or companies to move into highly distressed areas.

The federal government must augment the state and local government incentives by offering an incentive package of its own.

Enterprise Zone incentives most certainly should be in the form of tax credits or tax abatement programs so that there are no funds expended until some positive activity has occurred.

Incentives to welfare recipients should also be considered so that they can afford to go to work.

Mr. MATSUI. I call on the gentleman from New York for questions.

Mr. RANGEL. Let me thank you for your testimony and I hope all of you will be willing to work with us as we try to preserve the concept of the enterprise zone and get something that would have broader support than it presently has. Thank you.

Mr. MATSUI. Mr. Duncan, do you have any questions?

Mr. DUNCAN. I have no questions, thank you.

Mr. MATSUI. The gentlelady from Connecticut, Mrs. Kennelly.

Mrs. KENNELLY. Thank you, Mr. Chairman.

Mr. Carson, you mentioned in Connecticut we amended the original law twice over threee legislative sessions. Having worked as closely as you have with the enterprise zones, is there any particular suggestions you could give us so that we would not have to go through these changes? I am sure that you know areas where we could avoid problems because of your experience.

Mr. CARSON. I certainly would say that in the call of the committee meeting it was outside the original charter to respond to you, but the fact is that, one, the program should not be solely tax incentives. We have found, and Mr. Lyons mentioned it, that businesses, in many cases in startup phases are young businesses, not making a profit, and cannot use the credits.

Two, one of the biggest problems they have is the need for working capital, and the State provided a working capital loan program to start up.

No. 3, it would make sense to us that there be some form of at least companion kinds of public grant programs both at the State and Federal level to take care of the issues of the infrastructure and deteriorated streets and conditions within that community.

Certainly, fourth, the whole question of training; I think that an enterprise zone concept has to look very much at a program not only to create jobs but, more importantly, create jobs in the area within which the people live and bring the jobs to the people to keep them there. We have found in our experiences that the population in those zones in Connecticut are desperately in need of training programs and, again, I would think that the kind of resources provided by the State, hopefully, would be supplemented by the Federal authorities—if not new dollars certainly agreeing that, if HUD is the lead agency, the Department of Labor, not just the Congress, but to bring in the cooperative agencies to work with.

Mrs. KENNELLY. Then what I think I hear you saying is that in the Federal legislation there is a real emphasis on reducing taxes, on eliminating regulations, and other governmental burdens of economic activity are withdrawn. I heard Mr. Burnham speak about child care and you are speaking about job training, so you are saying we need some of those activities to be involved in the enterprise zone.

Mr. CARSON. Yes. The Governor announced it as an experimental program in Connecticut. We are trying to create incentives and to impress the residents of that community that someone cares, that someone is providing the resources so they can remain there and live there comfortably and safely.

Mrs. KENNELLY. You heard much of the testimony today and you constantly hear the concern that companies bordering the enterprise zones might suffer from competition. How have we handled that in Connecticut?

Mr. CARSON. No company has come to me to complain that a company has received benefits under our urban enterprise zone program. Another thing we did, to the degree there may be some companies that would like to utilize a program like this for what I call churning to sneak from one location to another, we had a very clear statutory prohibition on a company moving from one portion of Connecticut into another solely to take those benefits. I think that is an important aspect either to be considered in statute or certainly in terms of the administration of this program as we have seen it at the State level. But I have not had brought to my attention the fact that this is unfair competition.

Mrs. KENNELLY. One last question. When I became involved in backing urban enterprise zones I had people from labor express their concern over this. As I recall, when the legislation was up in Connecticut that same situation existed. Has there ever been any indication that urban enterprise zones took jobs away, or lowered wages, or produced unsafe working conditions? These things that labor worries about, have you seen these concerns become reality in our enterprise zones?

Mr. CARSON. Not from organized labor. Having gone through three legislative sessions where the program was created and amended twice, I think the good portion of the labor movement in Connecticut never spoke against this program at all. I think, again based on the results to date there do not appear to be any kind of problems that at least one of the previous speakers, the AFL-CIO, seemed to raise, as a potential. We have been comfortable with the results to date as to their impact on the community.

Mrs. KENNELLY. I am happy to hear that. I thank Mr. Burnham for raising the question of unskilled women. I think we can work with women's groups that are looking for jobs for women. I am glad you brought that to my attention, too. Thank you.

Mr. MATSUI. The gentleman from Pennsylvania.

Mr. SCHULZE. No questions.

Mr. MATSUI. You mentioned the churning aspect, we must make sure to prohibit that. Do you have that kind of language in your legislation?

Mr. CARSON. Yes.

Mr. MATSUI. What basically do you state in your legislation?

[Excerpts pertaining to the churning provision follow:]

Sec. 32-75. Certain business facilities not eligible. No business facility shall be eligible to receive the benefits provided for a facility located in an enterprise zone if: (a) Such facility has relocated from an area that meets the eligibility criteria stated in section 32-70 for designation as an enterprise zone; or (b) such facility was originally located in a distressed municipality, as defined in section 32-9p, and relocated into a designated enterprise zone; provided that in cases where the commissioner of economic development finds that the relocation of the business facility will represent a net expansion of business operations and employment, the business facility shall be eligible. For the purposes of this section, relocation is defined as the transferring of personnel or employment positions from one or more existing locations to another location.

(P.A. 82-435, S. 6, 8.)

See this chapter, Subsec. (a) of section 12-217e, Subsec. (qq) of section 12-412 and Subsec. (a) of section 32-91.

* * * * * * *

(d) No loan shall be made to a business who:

(1) is relocating from an area that meets the eligibility criteria in Section 1(a) of the act, to a designated enterprise zone; or

(2) is relocating from an area not meeting the eligibility criteria in Section 1(a) of the act but located in a distressed municipality, as defined in Section 32-p9p, to a designated enterprise zone; provided that in cases where the Commissioner makes a finding that the relocation of the business will represent a net expansion of business operations and employees, the business will be eligible for a loan. For the purposes of this section, relocation is defined as the transferring of personnel or employment positions from one or more existing locations to another location.

(Effective July 27, 1982)

Mr. CARSON. I certainly would not presume to tell the Congress what to do. We have a clear statutory reference that a company that is in one of the census tracts that could have been eligible for an enterprise zone even if it was not designated could not move to an enterprise zone in Connecticut and receive the benefits unless they make a substantive addition to their activity and employment over their old site.

No. 2, we have a broader program called the urban jobs program, which in fact was the catalyst for the enterprise zone program in terms of incentives and programs. Twenty-six communities of UDAG-eligible communities says again if a company is resident in one of those zones unless there is a net expansion in their employment they cannot move in. Additionally, we tried to direct benefits to the people most in need, the residents. We have taken some existing incentives and said you can have twice what you would have gotten in another part of Connecticut, not an enterprise zone, if at least 30 percent of your net increase in employment are people who are resident of that zone or eligible under CETA or its followup. We do have statutory language on that prohibition of moves.

Mr. MATSUI. Your program is 13 months ago?

Mr. CARSON. October 1982—by the time we got done certifying the six zone maps, it was in January or February, so that the communities had to wait. Norwalk was first in the door as usual, but all six communities have been actively marketing this for about 9 months.

Mr. MATSUI. Have you done any studies regarding whether there was a revenue loss to your State?

Mr. CARSON. Not at this point, although again using rules of thumb I believe that the total cost of the program, and this is a gross estimate of enterprise zones solely in the State of Connecticut, in the first year will be something less than $2 million in terms of either direct State expenditures from the general fund or bond proceeds as well as probably revenues forgone at the local level. That is based on comparison with a companion or predecessor program, so although a $2 million cost as a rough estimate to $62 million in planned expenditures sounds like a tremendous multiplier—I am willing to be more conservative—but I think $1 appears to be yielding, in general terms, $10 of private investment activity.

Mr. MATSUI. Are you doing some studies now in terms of what your revenue ratio—your revenue loss as opposed to the additional business in your——

Mr. CARSON. We expect to have those completed by February. We are in the process of working with our revenue department on getting it. I think the first year, if we demarcate the year at any point in calendar year 1983, because it is less than 12 months of activity it is not the best baseline for going forward. To the degree that other cities have said we want the program, the Governor and I have said it is still experimental and we would not expand it right now.

Mr. MATSUI. I would appreciate copies of the study. We appreciate very much your testimony. We thank you because you are, as Mr. Lyons and the other people have testified, people who have actually experienced the enterprise zone and we think this has been very helpful to us. So we thank you for your testimony.

I would like to call the last panel, Ronald A. Lewis; Robert Jackson, and we have also Ellis Mitchell and William Lilly; Edward J. Logue; Karin Richmond; Hon. Juan Hinojosa; George W. Haigh, and Mark Frazier. I would like to at this time, if I may, call upon the distinguished subcommittee chairman in Judiciary, the gentleman from Kentucky and a very good friend of this committee, Congressman Mazzoli.

INTRODUCTION BY HON. ROMANO L. MAZZOLI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. MAZZOLI. Thank you very much.

It is a pleasure to come to you for just a few moments to introduce one of your panelists today, Mr. Ron Lewis of my own city of Louisville, Ky., which has been designated by the State of Kentucky as its first enterprise zone. Mr. Lewis can give you firsthand information of how these zones work and what experience they have had with them.

I would say to you and your colleagues who have the most important jurisdiction in the entire Congress that you, I hope, will be able to give this as sympathetic a treatment as possible because we think there are elements here which will be very useful to the entire country. I want to thank you for your consistent friendship and wish the panelists well in their testimony.

Mr. MATSUI. Thank you, Mr. Mazzolli.

Congressman Hance of Texas specifically asked me this morning if I might welcome Karin Richmond and Hon. Juan Hinojosa. He is unable to be here today, but he certainly wanted me to welcome the two of you on behalf of the Texas delegation.

Mr. Ronald Lewis—your written testimony has been submitted. We will, with unanimous consent, receive that for the record. You may proceed by summarizing in any fashion you like. I would like to advise all members of the panel that we do have a 5-minute rule and would like to keep as close to that as we possibly can.

Mr. RANGEL. Is the South Bronx Development Organization represented on this panel?

Mr. MATSUI. I don't have that on my program. Mr. Logue is represented on this panel.

Mr. RANGEL. Who is representing Mr. Logue?

Mr. LOGUE. Mr. Logue.

Mr. MATSUI. Your written testimony will be received for the record. We will call at this time Mr. Ronald Lewis.

STATEMENT OF RONALD A. LEWIS, EXECUTIVE VICE PRESIDENT, LANHAM LUMBER & DRY KILN CO., INC.

Mr. LEWIS. Mr. Chairman, members of the committee, on behalf of Lanham Lumber & Dry Kiln Co., I want to thank you very much for the invitation to testify today.

Lanham Lumber is a new company commencing business July 1983. I as the executive vice president of the corporation, am committed to the passage of legislation for targeted tax incentives to distressed areas and in particular H.R. 1955. Today I have listened to theory, both pro and con, on enterprise zones, and at this time I am here to testify that the concept works.

The capital formation of Lanham Lumber was greatly influenced by the fact that the physical location of the facility was included in the first enterprise zone designated by the State of Kentucky and also the availability of funds from the city of Louisville in the form of industrial revenue bonds and from the State of Kentucky in the forms of funds from the Kentucky Development Finance Authority. In structuring the corporation and the capital required, the tax benefits derived from being in the enterprise zone and the industrial revenue bonds and State development authority funds reduced capital needs for our company in a very substantial manner. Without the enterprise zone benefits, I can tell you unequivocably that we would not be in business today.

We currently employ, after 3 months in business, 60 people of which 60 percent of those people were receiving some form of public assistance such as unemployment, AFDC, food stamps, and et cetera. It is extremely difficult to quantify on an annualized basis the amount of public assistance that was received by these people. However, the same number of people are now contributing to the tax base of this country on an annualized amount of $290,000 consisting of Federal, State, FICA, and local income taxes.

Lanham Lumber has a lessee on our facility who also is a qualified enterprise zone company. The company has 44 new employees who are now contributing to the tax base. Of the 44, 26 people who were previously receiving public assistance are now contributing to the tax base on an annualized amount estimated to be $108,000.

From a disposable income standpoint, the net payroll for our company and its lessee on an annualized basis will exceed $1 million the first year. This disposable income is being funneled into the economy of the Metropolitan Louisville area. This is disposable income that previously was not available to the economic base of the community.

The economic effects of the enterprise zone legislation, as relates to Lanham, go beyond the metropolitan area of Louisville and extend into the State of Kentucky as a whole when one considers the fact that in excess of 4,000 lumber trucks a year will be traveling the highways, consuming fuel, paying taxes, both State and Federal, as well as the income taxes to be derived from the income from the purchase of logs from the landowners and rough sawed lumber from sawmills.

Because our company is now in business, a sawmill in southeast Kentucky that had previously been closed down for 21 months has now been reactivated and is now back in business. The sawmill currently employs 20 people who previously were unemployed and will generate a gross payroll on an annualized basis of in excess of $350,000 a year, new money.

Lanham Lumber is currently actively involved in a construction program that will, from a national standpoint, generate income and jobs for firms in the Atlanta, Ga., and Jacksonville, Fla. areas.

The spiderweb effect of income flowing to the suppliers in other States providing equipment for the Atlanta and Jacksonville firms will have an impact on the areas from which that product is shipped.

In discussions with employees of Lanham Lumber, its lessee and the recently activated sawmill, the economic impact of employment on human values is significant. The employees want to work, the employees want a better standard of living.

The employees are spending their disposable income on goods other than basic necessities required for survival. And I might add, Mr. Chairman and members of the committee, in discussions with one of my employees recently, a female head of household with three children, prior to coming to work for our company, was on AFDC and was receiving food stamps and has discussed with me in great length what it has meant to her to come back to work.

Not only is the local metropolitan community of Louisville benefiting, but so is the State and the Nation.

Lanham Lumber is produced to be designated a EZ1-0001 in the State of Kentucky.

In conclusion, if a company like Lanham Lumber, small in the scheme of things on a nationwide basis, can have an economic and employment impact, consider what the benefit would be nationwide if the entrepreneurial spirit can be kindled by Federal legislation on a nationwide basis.

The targeted tax incentives to distressed areas concept is in our opinion an important piece of legislation to improve the employment position, reduce public assistance at all levels, and increase tax revenue on a personal basis for all levels of government.

We urge on behalf of all businesses present and future favorable consideration of targeted tax incentives to distressed areas, specifically H.R. 1955. Thank you, Mr. Chairman and members of the committee.

[The prepared statement follows:]

STATEMENT OF RONALD A. LEWIS, LANHAM LUMBER & DRY KILN CO., INC., LOUISVILLE, KY.

Lanham Lumber & Dry Kiln Co., located at 1698 St. Louis Avenue, Louisville, KY 40210, (502) 635-5277, is a new corporation commencing business on July 19, 1983. I, Ronald A. Lewis, Executive Vice President, as a business person representing my company, am committed to the passage of legislation for targeted tax incentives to distressed areas.

The capital formation of Lanham Lumber was greatly influenced by the fact that the physical location of the facility was included in the first Enterprise Zone designated by the State of Kentucky and the availability of funds from the City of Louisville Industrial Revenue Bonds and the Kentucky Development Finance Authority. In structuring the corporation and the capital required, the tax benefits derived from being in the Enterprise Zone and the Industrial Revenue Bonds and State Development Authority funds reduced capital needs for our company in a very substantial manner. Without the Enterprise Zone benefits, it is conceivable that Lanham Lumber would not be in business today.

Lanham Lumber currently employs 60 people, of which approximately 60 percent were receiving some form of public assistance, such as unemployment, AFDC, food stamps, etc. It is very difficult to quantify, on an annualized basis, the public assistance these employees were receiving, however, the same number of employees are now contributing to the tax base of this country on an annualized amount of $290,000 consisting of federal income tax, state income tax, FICA, and local income tax. Lanham Lumber has a Lessee on the facility, Dimensional Wood Products, who also has qualified as an Enterprise Zone company. Dimensional Wood Products, also a new company, has 44 people employed and contributing to the tax base. The company has 26 people whe were previously receiving public assistance and who are now contributing to the tax base on an annualized amount estimated to be $108,000.

From a disposable income standpoint, the net payroll for Lanham Lumber and its Lessee on an annualized basis will exceed $1,000,000. This disposable income is being funneled into the economy of the Metropolitan Louisville area. This is disposable income that previously was not available to the economic base of the area.

The economic effects of the Enterprise Zone legislation as relates to Lanham Lumber go beyond the Metropolitan area of Louisville and extend into the State of Kentucky as a whole when one considers the fact that in excess of 4,000 lumber trucks a year will be traveling the highways—consuming fuel and paying state and federal taxes as well as the income taxes derived from the purchase of logs from the landowners and the purchase of rough sawn lumber from the sawmills.

Because Lanham Lumber is now in business, a sawmill in Southeast Kentucky, that has been closed down for twenty-one months, has been reactivated and is now back in business. The sawmill currently employes twenty people who previously were unemployed and will generate a gross payroll on an annualized basis of approximately $350,000.

Lanham Lumber is currently actively involved in a construction program that will, from a national standpoint, generate income and jobs for firms in the Atlanta, Georgia, and Jacksonville, Florida, areas. The spider web effect of income flowing to the suppliers in other states providing equipment for the Atlanta and Jacksonville firms will have an impact on the areas from which the product is shipped.

In discussions with employees of Lanham Lumber, its Lessee, and the recently activated sawmill, the economic impact of employment on human values is significant. The employees want to work; the employees want a better standard of living. The employees are spending their disposable income on goods other than the basic necessities required for survival. Not only is the local Metropolitan community of Louisville benefiting, but so is the state and the nation. Lanham Lumber is proud to be designated as EZ1-0001 in the State of Kentucky.

If a company like Lanham Lumber, small is the scheme of things on a nationwide basis, can have an economic and employment impact, consider what the benefit would be nationwide if the entrepreneural spirit can be kindled by federal legislation on a nationwide basis. The targeted tax incentives to distressed areas concept is, in our opinion, the single most important piece of legislation to improve the employment position, reduce public assistance at all levels, and increase tax revenues on a personal basis for all levels of government. We urge, on behalf of all business—present and future—favorable consideration of targeted tax incentives to distressed areas.

Thank you.

Mr. MATSUI. Thank you, Mr. Lewis.

At this time, I would like to call Representative Mark Siljander up.

Mr. SILJANDER. Thank you, Mr. Chairman. I would like to introduce a group from my district of Benton Harbor. Earlier, during my testimony, I mentioned in some detail the city of Benton Harbor and their interests in enterprise zones.

We have Ellis Mitchell, the city manager; Bill Lilly, director of community development for the city and the chairman of the Enterprise Zone Committee, Bob Jackson.

I thank you for the opportunity of testifying and also letting the city of Benton Harbor testify. It is an honor for us to be here and thank you for the time you have extended to us.

Mr. MATSUI. Gentlemen, one of you may proceed.

Mr. Jackson.

STATEMENT OF ROBERT G. JACKSON, CHAIRMAN, BENTON HARBOR ENTERPRISE ZONE COMMITTEE

Mr. JACKSON. Thank you very much and thank you, Congressman Siljander. I am Bob Jackson. I own a 20-man metal fabrication shop in Benton Harbor. I have been there for 25 years.

Norwalk has testified already that in marginally depressed cities, that enterprise zones do work. As we have had testimony just now from Kentucky, they also are finding it successful.

Benton Harbor is located in southwest Michigan. This city of 15,000 people has 67 percent of its people on some sort of public assistance. As of September 11, 1983, 38 percent of the remaining people are unemployed.

Business losses and urban deterioration are continuing in our city. Benton Harbor is inordinately qualified under all criteria of the legislation before this committee.

For both 1981 and 1982, the Michigan State government has rated Benton Harbor as its city in greatest need of urban revitalization.

Furthermore, the "Fourth Study of General Manufacturing Business Climates of the 48 Contiguous States of America" published by Alexander Grant and Co., certified public accountants, 1982, rates the State of Michigan as the State in greatest need of improvement to its business climate.

Because we are the leading small city candidate targeted for economic incentives, the Benton Harbor Enterprise Zone Committee has worked in detail with the House, Senate, HUD and the administration for over 2 years to help develop good Federal legislation.

We have worked equally indepth to formulate compatible Michigan State legislation. Benton Harbor has also developed and adopted specific incentives to make both State and Federal legislation compatible to our needs.

All this has been done with enthusiastic surrounding community involvement to ensure that this program will be both successful for Benton Harbor and very beneficial to the surrounding area.

We believe that in order to rebuild our city from within, we must create a business climate in which a normal business can make a reasonable profit over a long period of time with minimum governmental administrative involvement.

We must also have opportunities for participation by our residents for holistic success.

Of all anticipated legislation, we believe that House bill 1955 for enterprise zones, along with our proposed State legislation, will have greater beneficial impact on our city than all other proposed legislation combined.

We also recommend that the employee-citizen ownership provision of House bill 1735 be attached to House bill 1955. This will allow Benton Harbor to compete with other areas to attract business with long-term investments. It will allow our existing businesses to grow.

Also, this legislation, along with our State proposals, will provide residential consideration so that our entire city can benefit.

The Federal Government would give up $2 to $3 million per year in lost revenues to finance the incentives provided in House bill 1955. Comparing this to the $45 million and growing annual cost of maintaining our under-employed population, the Federal Government would actually improve its fiscal position with a 10-percent improvement in Benton Harbor's economy.

Therefore, we strongly support House bill 1955 in its present form. We believe that the incentives provided are sufficient to help us rebuild our city and are not so large as to have a negative impact on our surrounding area.

Our neighboring communities and businesses strongly support Benton Harbor in its efforts to obtain a working enterprise zone as proposed.

If House bill 1955 were law, here is a conforming application defining the impact of the legislation on Benton Harbor. It completely describes our city, what we can do with it and how it would work. That was provided to HUD in June. They have been working with it.

I would like to turn this over to our city manager, Mr. Mitchell, and he can further describe what it means to the city.

[The prepared statement follows:]

STATEMENT OF ROBERT G. JACKSON, ENTERPRISE ZONE COMMITTEE, CITY OF BENTON HARBOR

Good morning, Mr. Chairman and committee members, I appreciate this opportunity to provide brief comments on legislation targeted for designated area. I am Bob Jackson. I own and operate a 20-person metal fabrication business in Benton Harbor, Mich. I am chairman of the Benton Harbor Enterprise Zone Committee for the city and am accompanied by Mr. Ellis E. Mitchell, our city manager, and Mr. William Lilly, our economic development specialist.

Benton Harbor is located in southwestern Michigan. This city of 15,000 has 67 percent of its residents on some form of public assistance. As of September 1, 1983 38 percent of the remaining residents are unemployed. Business losses and urban deterioration are continuing. Benton Harbor is inordinately qualified under all criteria of the legislation before this committee. For both 1981 and 1982, the Michigan

State government has rated Benton Harbor as its city in greatest need of urban revitalization.

Furthermore, the Fourth Study of General Manufacturing Business Climates of the 48 Contiguous States of America published by Alexander Grant and Co., certified public accountants, 1982, rates the State of Michigan as the State in greatest need of improvement to its business climate.

Because we are the leading small city candidate targeted for economic incentives, the Benton Harbor Enterprise Zone Committee has worked in detail with the House, Senate, HUD, and the administration for over 2 years to help develop good Federal legislation. We have worked equally in depth to formulate compatible Michigan State legislation. Benton Harbor has also developed and adopted specific incentives to make both State and Federal legislation compatible to our needs. All this has been done with enthusiastic surrounding community involvement to ensure that this program will be both successful for Benton Harbor and very beneficial to the surrounding area.

We believe that in order to rebuild our city from within, we must create a business climate in which a normal business can make a reasonable profit over a long period of time with minimum governmental administrative involvement. We must also have opportunities for participation by our residents for holistic success. Of all anticipated legislation, we believe that House bill 1955 for enterprise zones, along with our proposed State legislation, will have greater beneficial impact on our city than all other proposed legislation combined.

We also recommend that the employee/citizen ownership provision of House bill 1735 be attached to House bill 1955. This will allow Benton Harbor to compete with other areas to attract business with long-term investments. It will allow our existing businesses to grow. Also, this legislation along with our State proposals, will provide residential consideration so that our entire city can benefit.

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If House bill 1955 were law, here is a conforming application defining the impact of the legislation on Benton Harbor.

Mr. Ellis Mitchell will describe how the legislation would be applied to Benton Harbor.

Our responses to the tax policy and administrative issues to be addressed in this hearing are as follows:

1. How should targeted, distressed areas be identified and defined?

The same criteria used to determine a community's eligibility for Urban Development Action Grants should be used to identify or qualify a area for enterprise zone status.

2. What tax incentives are most likely to aid in the revitalization of a distressed area?

a. Accelerated depreciation for real property improvements.

b. Investment tax credits.

c. Tax credits for employment of the unemployed and underemployed.

3. How should the revenue implications of proposals to provide tax incentives for distressed areas be assessed?

The revenue implications should be weighed against the projected benefit, which will eventually result in a reduction of expenditures to the distressed areas.

4. What are the relative advantages and disadvantages of tax incentives as compared with direct spending programs in addressing the problems of distresses areas?

The primary advantages of tax incentives as compared to direct spending are several. They are:

1. The direct benefits will accrue to business and industry, who are the creators of jobs. Direct spending although needed, cannot adequately address the many, growing needs of the distressed areas. There must be involvement by both the public and private sector.

2. The red tape (paperwork) associated with many of the direct spending programs is very costly. If tax incentives were substituted for some of the direct spending programs the cost to finance the programs would decrease.

5. Should the use of certain industrial development bonds be limited to distressed areas?

Yes. Industrial Development Bonds provide incentives for investors to invest funds. In theory, one does not need incentives to invest in an economically viable area due to the limited risk. Further, distressed areas are the areas in which incentive are needed to encourage investment.

6. Is it fair to have special, preferential tax rules apply in a limited number of distressed area?

Yes. If all distressed areas had preferential tax rules, the cost to Federal and State government would be astronomical. Further, the areas that are truly depressed can be identified and the tax incentives targeted to those areas.

For more information, contact the following persons:

Mr. Ellis Mitchell, City Manager, City of Benton Harbor, 200 Wall Street, Benton Harbor, Mich. 49022. 616/927-8400.

Mr. William Lilly, Community Services Director, City of Benton Harbor, 200 Wall Street, Benton Harbor, Mich. 49022. 616/927-8420.

Mr. Robert G. Jackson, President, Triax Tube Company, P.O. Box 277, Benton Harbor, Mich. 49022. 616/925-0011.

STATEMENTS OF ELLIS E. MITCHELL, CITY MANAGER, CITY OF BENTON HARBOR, MICH., AND HON. JUAN HINOJOSA, TEXAS STATE REPRESENTATIVE

Mr. MITCHELL. Mr. Chairman, members of the committee, I would like to thank you for the opportunity to address the issue of the enterprise zone legislation and I would like to thank our Congressman, Mark Siljander, for his remarks earlier and for his introduction.

Maybe this is destined, and I say that because my colleagues and I, Mr. Jackson and Mr. Lilly, testified last on the agenda before the Finance Committee before they gave their favorable vote to the enterprise zone legislation, so if that is the lead, we are here last again.

After sitting here all day as you have, we have heard the administration's views from several representatives. We have heard views from other Congressmen, from mayors, from a councilman, from the business community, and even some objections.

My comments are solely as an administrator, as an appointed official, one who faces and addresses the problems of a heavily distressed city on a daily basis. As such, I view this bill not as a partisan or as a nonpartisan bill, but as a bill needed by distressed cities. Therefore, I shall simply tell you the effect of enterprise zone legislation on my city, Benton Harbor, Mich.

The entire city limits of the city of Benton Harbor, with the proper mix of industrial, commercial, residential, and recreational areas suitable for revitalization and development have been identified and included in our enterprise zone. We recognize the need to address our problems ourselves from the local level, and therefore, we have taken steps to solve them. One of the steps that we have taken on the local level—and this is coming from the city—is a local business incentives program. What we have done is we are in the process of identifying and marketing the direct and indirect, the economic and noneconomic incentives that the city has at its command through this local business incentives program.

This program, plus enterprise zone legislation, the State and/or Federal combined with the current and future Federal and State programs, presents to us a comprehensive program that can be marketed and promoted and cannot do anything but add up to an excellent tool to encourage business retention, expansion, and attraction in our city.

You notice I said retention and expansion first.

We believe that we cannot attract businesses if we continue to lose businesses. We must encourage those in the city to expand, stay, and expand again. We feel that enterprise zone legislation will allow us to compete with other areas. As I said, it will allow our current businesses to expand, allow us to attract businesses. Along with this legislation, we feel also that our residential community will benefit.

The current programs have gotten us to a point. Is the enterprise zone the mechanism to take us further? We will never know if we never act. Further, I ask you, is there anything better, is there anything on the horizon that is better?

Mr. Chairman, I submit that the enterprise zone legislation plots the course. We should now put the ship in the ocean before we start to steer it. That is to say, no, it is not perfect, but we believe that the administration's plans to modify the program after its evaluation will take care of that problem.

I will now turn the microphone over to my colleague, Mr. Lilly, to talk in more detail about the project, the effects of enterprise zone on our projects in the city of Benton Harbor.

STATEMENT OF WILLIAM LILLY, DIRECTOR OF COMMUNITY SERVICES, CITY OF BENTON HARBOR, MICH.

Mr. LILLY. As indicated, I am a community development director of the city of Benton Harbor. I am therefore charged with the administration of the various grant programs.

To a degree, many of the existing direct programs to distressed areas are designed to, or at least have been implemented in such a way as to halt deterioration of distressed areas. Although they are very important and the areas need them, they do not effectively promote economic growth in distressed areas. Communities qualify for direct aid or funding only after they have been declared distressed, that is, they have been deteriorated. Therefore, the halt to deterioration is many times a dollar short or 10 to 20 years too late.

With the existing program, the funds that are allocated for distressed areas are so few, given the abundance of need in the distressed area, the local governments are faced with the dilemma of suballocating the funds in so many areas that the funds cannot be seen or measured. This is the situation if deterioration continues in many communities and the need for direct financial assistance is continuing.

Distressed areas need something more, that is, the existing efforts may assist in halting deterioration but do not provide incentives for growth. We believe that the direct tax incentives to the private sector and residents along with the existing programs may be the additional tools that will create economic growth in our distressed areas.

While we sit here today and discuss enterprise zones, businesses are making decisions to expand, not to expand, to invest domestically or to invest abroad. Unfortunately, there seems to be a trend of disinvestment or investment abroad.

We at the Federal, State, and local governments must design and implement a program that will provide an incentive for business and industry to reinvest domestically and in particular in the distressed areas of our country.

Thank you.

Mr. MATSUI. Thank you very much.

I would like to at this time call the gentleman, Mr. Logue, who is representing the South Bronx Development Organization. Would you please state your name for the record as well?

STATEMENT OF EDWARD J. LOGUE, PRESIDENT, SOUTH BRONX DEVELOPMENT ORGANIZATION, INC.

Mr. LOGUE. My name is Edward J. Logue. I am the president of the South Bronx Development Organization. I have a prepared statement which I have left with the committee which I hope will be incorporated in whatever record you make.

If any area in the United States is assumed to be able to benefit by enterprise zone legislation it would be the South Bronx. The media attention brought on by the visits of Presidents Carter and Reagan has given the community a notoriety which is worldwide. My staff has taken representatives of 26 nations from all around the world on tours. We believe, however, that there is a very positive side to the story of the South Bronx, and we try to tell that story in our latest publication, which I have also given to the committee.

Bob Garcia, our South Bronx Congressman, has been an early and effective proponent of the enterprise zone legislation, and he certainly made a very fine statement today.

We support this legislation in principle but we have serious reservations, and today I will offer several specific suggestions which I hope are constructive, for improvement. This is the only urban initiative this administration has put forward, and it has taken away quite a few others.

My formal statement describes the situation as we find it today in the South Bronx. I put that in the statement because I think it will be useful to know, if you come to consider this matter at any length, how this might work in a place like the South Bronx. We certainly would reject out of hand the idea that two census tracts of the South Bronx is an adequate enterprise zone. We think the whole South Bronx is an enterprise zone, and that is about 20 square miles.

I have seven specific suggestions. I have made these suggestions before to other committees and to HUD. The response from HUD has been massive silence.

First, you all are familiar with the changes in the depreciation schedules which took place in the Economic Recovery Tax Act of 1981. They are not necessarily of any benefit to communities like the South Bronx, to depressed communities in Connecticut and maybe even to Benton Harbor, Mich., and that is because sites which are unencumbered by the difficulties of relocation or land acquisition do not for the most part exist in depressed zones.

Therefore we propose a simple corrective amendment, because the enterprise zone bill is a tax bill. It is tinkering with the Internal Revenue Code for what we all hope are worthy purposes.

We suggest that the new depreciation schedule for enterprise zones only be half that which it is for the rest of the country, for real property improvements depreciation over 7½ years, for machinery and equipment down to 5 years, and vehicles 2½.

One more point. These benefits should only go to products which are made in the United States. Although I consider myself a freetrader, I think free trade has been effectively abandoned by most of the developed nations, including all of our principal allies.

Second, aid to small businesses, in the form of the tax leasing which is now threatened in the Congress, should be continued in enterprise zones. This is desirable because most of our businesses in enterprise zones, I suggest, will be small businesses, and most of the benefits in this legislation are for big businesses.

Third, we would like to see the bill amended to provide still greater incentives for hiring of disadvantaged employees by making 100 percent of that first year's salary, the first year being the most difficult year in such hiring, 100-percent deductible.

Fourth, we would like to see all Federal taxes reduced for firms doing up to half a million dollars a year gross if they have 10 or more employees.

Fifth, to take up a suggestion which I heard made more than a year ago by Jack Kemp, so-called equity expensing to make it easier to get risk capital in by allowing that risk capital to be deducted in the first year of its investment.

Sixth, and I will spend the little time I have on these last two recommendations—eliminate the enterprise zone competition. The original administration bill provided for 25 zones per year. For urban zones that has now been reduced to 17, since one-third must be rural I have heard today 17 different enterprise zones taking the trouble to come down here and speak for themselves. Yet we are told that the Department of Housing and Urban Development is going to conduct a competition, which I do not believe they are qualified to conduct, and they are going to rake over the cities of this country to decide which of the local tax relief policies they like best, whether the particular brand of regulatory relief is HUD's favorite.

There was a fellow there for a while who believed in privatizing. I cannot see the mayor of New York or Boston, or Chicago or Philadelphia or Norwalk nor Benton Harbor trying to compete with each other to see who can come closest to HUD's often closet preferences about privatizing garbage collection or street repair or public schooling. In its most extravagant days the proponents of the Great Society never went that far.

Finally, the bill proposes a competition among mayors over how they involve the neighborhoods and community groups, to be judged by the bureaucrats at HUD. This, I suggest, Mr. Chairman, is a monster. How you do it in Harlem is your business and the business of the people there, and how it is done in the South Bronx is the business of the people in the South Bronx and Congressman Garcia and so on.

I have no reason to believe from almost 30 years of doing business with HUD and its predecessor that HUD has any capacity at all to make the judgments that this bill calls for. When they have made them they have no further responsibility. The Department of the Treasury and the Internal Revenue Service have the entire function of administering the bill. If the committee is so doubtful about the efficacy of this measure I suggest that you write in a lottery.

Seventh, my last recommendation, remove the limit on the number of enterprise zones. If the South Bronx is selected, why should Harlem or Bedford-Stuyvesant have to wait, or contrarywise, seeing the seniority of the chairman, why should the South Bronx have to wait if Harlem is selected?

That is immoral, in my judgment. If Ms. Kennelly were here, I would say why pick the north end of Hartford over the east end of Bridgeport or the Dixwell neighborhood in New Haven. This question cannot continue to be allowed to go unexamined. Let me be personal and direct. Whatever the Congress and the administration decide, if there is legislation, given our Presidentially inspired notoriety and our capacity as wily stalkers, I am confident we will succeed. But why should not Harlem and central Brooklyn and Buffalo and Rochester succeed as well? The troubled Northeast alone could use 100 zones. This is a program with no real cash expenditure by the Government.

The administration, that is the Department of Housing and Urban Development, for 2½ years have entirely failed to do a respectable piece of economic research on what the savings could be in enterprise zones and the diminution of social welfare and transfer payments of many kinds. All they have talked about is the loss to the Treasury of income. That is unreal and unfair and convinces me that nobody at HUD is serious about the legislation. I have never seen an allegedly major piece of urban legislation put forward so passively by its sponsors, and I go back to 1954, President Eisenhower and that landmark law.

Finally, I think that most people with any serious familiarity with the urban areas know—I got familiar enough with Benton Harbor in a couple of minutes to know—that there is far more money going in there today from the Federal Government than is being contributed by that city. The South Bronx is a deficit area, so is Harlem, so is central Brooklyn. I say let us get rid of the limit. This is going to be a tax bonanza or revenue bonanza for the Federal Government if it works. If a hundred communities qualify, that means 100 communities have gotten their act together and said this is what we are going to do and we are confident enough that we are going to take the responsibility for administering it, we are going to make it work.

Mr. Chairman, if it works that means that transfer payments will decline and over time tax payments will increase. I suggest that it is immoral with the nature of the urban crisis in this country today to talk about 17 urban enterprise zones a year for 3 years. They ought to be ashamed of themselves for proposing it.

[The prepared statement follows:]

STATEMENT OF EDWARD J. LOGUE, PRESIDENT, SOUTH BRONX DEVELOPMENT ORGANIZATION, INC.

South Bronx Development Organization, Inc.

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November 17, 1983

If any area in the United States is assumed to be able to benefit by federal enterprise zone designation, it would be the South Bronx. The media attention brought on by the visits of Presidents Carter and Reagan has given the community a notoriety which is world-wide.

We believe there is a very positive side to the story of the South Bronx and we have tried to tell that story in our latest publication, "Meanwhile in the South Bronx..." I would like to enter that report in the record of this hearing.

Bob Garcia, our South Bronx Congressman, has been an early and effective proponent of the Enterprise Zone legislation.

We support this legislation in principle but have some serious reservations. Today I will offer several specific suggestions for improvements.

This is the current Administration's only major new urban initiative. Compared to other urban aid bills I have watched closely going back to the Eisenhower era Housing Act of 1954, a major bipartisan initiative, I have not seen much of a push for this legislation.

My concerns are the following:

1) This bill is being offered as the only new urban initiative required. Most of us know this is wrong. We urgently need a housing program to replace those which were abandoned in 1981.

2) I am worried about what I consider tokenism in the bill. Limiting the total number of zones to 25 a year is tokenism pure and simple. At that rate 100 years from now the Congress would still be dealing with the problem.

3) Challenging Mayors to compete on how bad their slums are is obscene.

4) I am increasingly concerned that, as drafted, the bill will be used as a federal club to force localities to meet the standards of federal bureaucrats about what are appropriate ways to reduce local and state red tape and increase incentives.

That is an unwarranted interference in the marvelous pluralism of our country. Our state and local governments have and will continue to devise ways and means to promote their own economic development.

Unless the bill is substantially revised, I believe it should be rejected.

That is why I am making (and have made) specific suggestions for improvement.

After three years of discussion, "Enterprise Zone" is still far too much an empty vessel into which a lot of very different people have tried to pour their hopes, prejudices and doctrinal beliefs. There is no consensus as yet on what an Enterprise Zone will really get done. If HUD has done any such studies, they have kept them pretty quiet.

Boundaries of South Bronx Enterprise Zone

The City of New York established the boundaries of the South Bronx in 1977 shortly after President Carter's October 1977 visit to Charlotte Street.

It was settled then that the South Bronx consists of Bronx Community Districts 1 through 6, as shown on the attached map. The area comprises some 20 square miles, or approximately 13,000 acres. The population is 453,925, on the basis of the still contested 1980 census, down from 763,518 in 1970. A loss of 40%.

The area as a whole, and in fact each of the individual community districts, meets each of the criteria for eligibility for designation as an Enterprise Zone.

The boundaries we all use were approved for administrative, program and funding purposes by HUD and by the State of New York in 1978. All of our work has been organized and carried out on the basis of these boundaries.

We see no reason to change them now. These are the boundaries we propose to use in our Enterprise Zone application.

Plan and Program

Twenty-five years and more of experience in the City business has long since taught me that no single-track approach to urban revitalization is going to work in America these days. SBDO operates in five major program areas: Economic Development, Employment Training, Housing, Human Services and Land Revitalization.

Working with the community, civic leadership, public officials and the private sector, SBDO has developed a linkage approach in which we attempt to have our five major program areas reinforce one another.

I do not claim this approach is unique, but there are not many other operations like ours.

Our basic plan and program for a South Bronx Enterprise Zone will be the one we have already made. We have adapted it to the new federal funding realities. We do not need a running-in period. When the legislation is passed, we will be ready.

Our Enterprise Zone focus will be on economic development and employment training.

Delivery Mechanism

If I have learned anything in a lot of years in the City and State development business, it is that the comparative effectiveness of a development program is best measured by evaluating the delivery system. How long does it take to get a decision? How clear are the guidelines? How certain the process? Is anyone in charge? Developers and potential employers understand this process and are guided accordingly.

New York State has in place the nation's most powerful and versatile development entity - the New York State Urban Development Corporation. UDC has broad powers to create local subsidiaries.

The City Administration is considering a well crafted piece of legislation which would set up a City version of UDC. The bill will also empower the new corporation to set up subsidiaries similar to UDC.

We will recommend to City Hall that a new corporation be set up either as a UDC subsidiary or a City subsidiary to administer the Enterprise Zone program in the South Bronx. It would have strong representation from the Borough President's Office and local community boards and community leaders, as well as representation from City Hall. It would seek to bolster the work of existing community development organizations and to maximize community input.

We would propose that this new entity be given title to the substantial vacant land and buildings which the City has taken by in-rem actions and be given a significant voice in the allocation and use of some significant portion of the CD dollars in the South Bronx, particularly those targeted for demolition, relocation and site improvements.

What New York or any other City does about its delivery mechanism is, I believe, the locality's business. It should not be a concern of the Federal government. It never has been in the past.

The Basic Thrust of the South Bronx Enterprise Zone Program

The Enterprise Zone program is not designed to be a Housing program, at least not in any sense that we feel will work in the South Bronx.

It is not a Human Services Program.

Both programs are essential to a South Bronx Revitalization Program. We propose to pursue them by other means.

The Enterprise Zone Program must include a greatly expanded and accelerated Land Revitalization program.

What do I mean by that? We have almost 3000 abandoned City-owned buildings in the South Bronx and almost 5000 vacant city-owned lots, close to 500 acres of wasteland which must be put to productive use for housing, industrial development, playfields and temporary parks and gardens.

These City holdings are scattered widely, as our maps show. We do not have readily available the 5 to 10 to 20 acre parcels in quantity that are required for our industrial development program or our manufactured housing program. That is unfortunate.

In 1983 the assembly of such sites is basically a city responsibility which can be achieved by more effective channeling of community development funds. We have been working with City agencies on this and believe progress is being made.

The major thrust of our Enterprise Zone program must be and will be Economic Development plus coordinated Employment Training.

The reduction of Federal economic development aid programs, historically high interest rates and the adverse impact of a nation-wide industrial recession are of course having adverse impacts on the South Bronx as they are elsewhere.

We intend to use the benefits which would be made available by this bill to put together financing packages which we are unable to complete successfully today because of still high interest rates and the scarcity of Federal economic development funds.

Simply stated, we regard the Enterprise Zone legislation as offering a few more helpful aids that can make the South Bronx more competitive.

If clear, strong, simple tax preferences are available for those who decide to invest in the South Bronx, whether it be in the form of depreciation allowances, tax credits, tax exemptions, tax leasing, or a mix, along with other aids such as UDAG, EDA and CD funds we believe we can get our share of the business.

However, the tax preferences in Enterprise Zones must be significantly better than those which have been made available nationally through the Economic Recovery Tax Act of 1981 (ERTA).

The sample of South Bronx potential customers who could be aided by solid Enterprise Zone legislation include:

1) Commercial trucking firm seeking expansion space

2) Handbag manufacturers seeking to expand

3) Trucking firm to be displaced by public improvement needs new quarters

4) Growing manufacturer of theatrical scenery which must have expansion space

5) Large food wholesaler which requires expansion space

6) Manufacturer of banknotes needs modern production facility

7) Small auto parts company seeking to expand and become owner-occupant

8) Small manufacturer of HVAC equipment needs expansion space

9) Minority owned food distributor in major expansion

10) Manufacturer of quality cabinets for department stores and business seeks expansion room.

These companies are big and small, old and young. There are many more.

We have the best industrial location in New York City and one of the best in the region.

We have a stable and reliable work force.

We have good transportation for workers and for materials.

We urgently need an incentive program to overcome the handicaps of our national and local image.

A strong Enterprise Zone bill can help us.

Recommendations for Changes in the Legislation

1. Special Treatment for Depreciation in Enterprise Zones

A major change in allowable depreciation schedules was an important feature of the Economic Recovery Tax Act of 1981 (ERTA).

The theory was that a general acceleration of allowable depreciation rates would greatly stimulate capital investment in plant, machinery, equipment and vehicles, thereby modernizing America's productive capacity, and make it more competitive in world markets. The change was, of course, national in scope and applied uniformly throughout the country.

We think that was a positive benefit to the economy which will have a very beneficial impact for many years to come, even if it has not proved too effective as a counter-cyclical stimulant.

However, all things being equal, it is quite likely to promote investment outside the central cities since it is outside the cities that the most available and most attractive industrial sites are located.

In fact, areas that qualify as Enterprise Zones will probably be adversely affected by the 1981 depreciation amendments. They certainly present no advantage to places like the South Bronx.

We doubt that was the intent of the Congress though we expect it will be the result.

We propose a simple corrective amendment.

Cut the new depreciation schedule in half for designated Enterprise Zones. Reduce the depreciation schedules as follows:

Real Property Improvements	15 years to 7 1/2
Machinery and Equipment	10 years to 5
Vehicles	5 years to 2 1/2

Such a change will make a significant and quick difference. We urge that the Committee provide for it.

One minor point or perhaps not so minor. Although I have a long standing belief in free trade, we live in a world where financial aid from the governments of developed and developing countries has become commonplace in world trade. We are the odd man out as has been painfully demonstrated by Japan in many industries, in transportation equipment by France and in metallurgy by Germany.

Therefore, I do not hesitate to recommend that these proposed Enterprise Zone depreciation schedules be available only for purchases of American made products.

2. Increase Aid to Small Businesses

Does the Administration's legislation favor strong and established businesses over small starting businesses?

We suggest it does. Yet, across the political spectrum there is agreement that the quantitatively significant economic and job growth opportunities lie with small, starting businesses.

All of the employer payroll and property investment tax credits in the bill are most meaningful to strong, large, high-profit-margin businesses. New and growing businesses, the supposed target of the proposed legislation, need improved access to capital. This can be achieved by allowing the sale of unused tax credits by new and expanding businesses in Enterprise Zones. This will simply extend to businesses in Enterprise Zones a tax benefit which is now a controversial part of our current tax laws and applicable to all businesses throughout the country which are in a position to use them.

Senator Dole and others want to eliminate this so-called "tax leasing". They may be right. But it should remain for Enterprise Zones, particularly for small businesses.

The bill should make clear that "tax leasing" is okay in Enterprise Zones.

3. Improve Incentives to the Disadvantaged Person

The first year of employment of a "disadvantaged" person is the most difficult year for an employer.

We suggest improving the employer's incentive by making his tax credit for the first year of employment 100% of the employees' first year wages.

4. Reduce Taxes for Small Businesses

The burden of federal corporate taxes and filling out forms is especially hard on firms doing $500,000 a year or less in volume.

We recommend eliminating all federal corporate taxes for all zone businesses with 10 employees or more with a volume of $500,000 a year or less.

5. Venture Capital Fund

With the sharp reduction and/or elimination of many direct federal aid programs in economic development, there is a need to encourage still more private sector money.

The missing link is risk equity.

Representative Jack Kemp, the strongest proponent of Enterprise Zone legislation, has supported the concept of "equity-expensing" as a device that would encourage equity investment in Enterprise Zones.

This is how it would work. A purchase of stock in an Enterprise Zone business could be deducted 100% as a business expense in the year of investment. It would help a lot in many situations we are working on right now. We urge the Committee to include such an opportunity in the final bill.

6. Eliminate the Enterprise Zone Competition

The Administration's bill provides that the Secretary of HUD shall choose over a period of 3 years, 25 Enterprise Zones a year.

The Administration's bill, fact sheets, and Secretary Pierce's press conference transcript all make clear that from their point of view the Enterprise Zone program is intended to offer Federal tax incentives only to those local jurisdictions who succeed in persuading HUD that in the whole country they are among the 25 best local and State government combinations judged by the following primary criteria:

1) Tax relief

2) Regulatory relief

3) Increase in the level or efficiency of local services through possible experimentation with private sector providers of public services

4) Involvement in the program of neighborhood and community groups

Let us stand apart from that language for a moment and recognize this ploy for what it is.

It is the boldest attempt I have seen in 30 years to put the Federal government in the position of telling local government what to do.

Dwight Eisenhower was our President when I went into the City business in New Haven in 1954. Urban renewal was the major Federal urban aid program then. Its cardinal rule on this issue was "local plans locally arrived at." How far these Republicans have drifted from that simple Federalism! Today HUD is asking for the power to tell our Cities and States, for modest benefits, and no cash, that HUD will pass them through the Enterprise Zone golden gate only after HUD has decided:

1) Whether it likes their local tax relief policy best.

2) Whether their particular brand of local regulatory relief is HUD's favorite.

3) Can you see the Mayors of New York, Boston, Chicago and Philadephia primed to compete with each other and who else to show that they come closest to HUD's closet preferences about privatizing garbage collection, or street repair or public schooling. In its most extravagant days, the proponents of the Great Society never went that far.

4) And finally a competition among Mayors about how they involve neighborhood and community groups - to be judged by the bureaucrats at HUD!

I have no reason to believe that at present, or at anytime since its creation, HUD has the capacity to make such judgments.

Those areas which qualify should get the Enterprise Zone benefit. I know of no other provision in the Internal Revenue Code which has an Atlantic City "Miss America" contest before you qualify.

If the Committee and the Administration have so little confidence in the efficacy of this measure, I suggest they proceed by lottery.

7. Remove the Limit on the Number of Enterprise Zones

When, across the country, successful urban aid programs are shutting down because of Federal cutoff, when hope is dwindling, its seems to me obscene to say to the 90% or more of the ghetto poor who will live in non-approved Zones, "Wait your turn."

If the South Bronx is selected, why should Harlem and Bedford Stuyvesant have to wait.

Why pick the North End of Hartford over the East End of Bridgeport. The examples are without end.

That question cannot be allowed to go unexamined.

Let me be both personal and direct. Whatever the Congress and the Administration decide, if there is legislation we will compete. Given our Presidentially-inspired notoriety and our capacity as "wily stalkers," I am confident we will succeed. Why shouldn't Harlem and Central Brooklyn also succeed? And Buffalo and Rochester, Syracuse and Albany. The troubled Northeast alone could use 100 zones.

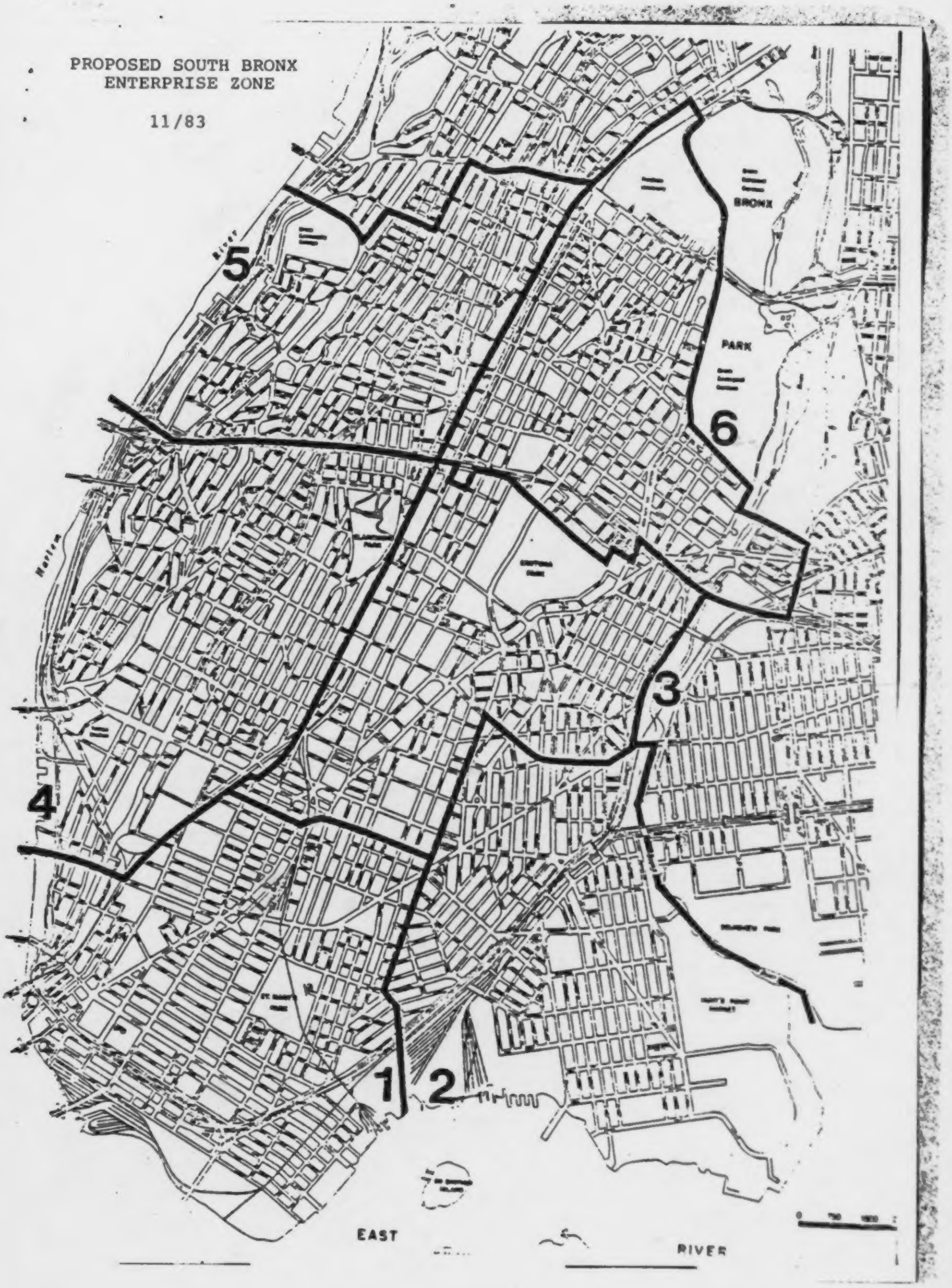
HUD just has no idea how many federal dollars go into Enterprise Zones today for whatever purpose, and it certainly has no idea how much those totals would be reduced if the zone concept was successful.

Nor has HUD done the homework necessary to persuade the Treasury that Zone "tax expenditures" would not have occurred anyway in taxable situations somewhere else.

Yet most people with any serious familiarity with the urban areas eligible for zone designation are entirely confident that these areas today are deficit areas in terms of support appropriations going in as against tax revenues coming out.

Let's get rid of the limit.

I am grateful for this opportunity to express my views.



PROPOSED SOUTH BRONX
ENTERPRISE ZONE

11/83

River
5
Harlem
4
BRONX
PARK
6
3
1
2
EAST
RIVER

Mr. RANGEL. Thank you, Mr. Logue.

The McAllen Chamber of Commerce, Karin Richmond, chairman of economic development; and the Honorable Juan Hinojosa.

STATEMENTS OF KARIN RICHMOND, DIRECTOR OF ECONOMIC DEVELOPMENT, McALLEN CHAMBER OF COMMERCE AND HON. JUAN HINOJOSA, TEXAS STATE REPRESENTATIVE

Ms. RICHMOND. Mr. Chairman, a year has passed since the fall of the Mexican peso. Rio Grande border communities have yet to recover from the devastating effects of the 1982 devaluation. In McAllen, Tex., unemployment remains rampant. Last month our area experienced 25 percent unemployment, the second highest in the Nation. Retail trade, our second largest employment sector, continues to suffer a 35-percent decline when compared to October 1982. In actual dollars, this amounts to a loss of almost $200 million from our local economy this year alone.

On top of the problems beset by the peso devaluation, McAllen has the lowest per capita income in the Nation; $4,108 versus $5,322 nationally. Our workers are the lowest paid, $10,906 versus $19,000 nationally; and we have the most substandard housing for a city of our size in the United States.

This situation is not likely to improve without help. Our population is growing 25 percent a year, the third highest birth rate in the country. Compound the burgeoning infant population with unprecedented waves of illegal immigrants and we have an area which may suffocate without massive stimulus through job creation. By the year 2000, we estimate McAllen and the Rio Grande Valley will need 160,000 new jobs just to maintain our crippling unemployment rate.

How can we create these jobs? There are two basic alternatives: Public infusion of grants, loans or payroll or, alternatively, private investment into our local area.

If local Government officials were offered the choice between long-term permanent jobs and high levels of Federal assistance, they would obviously choose the jobs. There is certainly no magical remedy affixed to our tax dollars between the time they are taken from our pockets and the time they are redistributed to our ailing and distressed areas.

However, there are some rather obvious implications in giving tax credits to those who hire the disadvantaged and who invest in distressed areas. The first and foremost is unless a business actually creates jobs and makes new investments in the enterprise zone there will be no significant tax credits given.

Second, there are a plethora of current Federal programs that are distributed on the basis of poverty and unemployment data. These include the community development block grant program, revenue sharing funds, unemployment insurance, food stamps, school lunch programs, worker training programs, et cetera.

There are a multitude of questions which surround the real effectiveness of these and other Federal programs and their ability to treat or even approach a cure of local economic ills.

Most traditional forms of Federal domestic assistance do not assure that the assistance given actually results in alleviation of the very factors that caused the targeting of that assistance. For example, the community development block grant program bases its fund distribution on the incidence of poverty and the condition of housing stock. Yet the Federal Government has few assurances from the local recipient government that the CDBG fund will actually reduce the twin problems that generated the funds in the first place.

There are few feasible ways for the Federal Government to encourage private sector redevelopment of distressed areas by redistribution of Federal funds. There is one Federal program that has attempted this and it has enjoyed some success. That program, the Urban Development Action Grant program, leverages public funds by requiring private investment; in the areas where this type of program would be of most benefit, the UDAG program is not functioning well because there are no private investments to be leveraged.

Tax credits targeted to areas of economic distress would encourage such private investment in an otherwise unattractive area. At once, tax credits would achieve local goals of job creation and the parallel national goal of assisting those areas of greatest need with Federal funds.

There are direct tax revenue benefits to communities which take the enterprise zone initiative. In our neighboring State of Louisiana, the Office of Commerce and Industry estimates a return of $1.51 to the State coffers for every $1 abated as a tax credit through their State enterprise zone program. Texas also expects to increase its revenue base through its own enterprise zone program, signed into law by Governor White for implementation on September 1, 1983.

For McAllen in particular, the Texas Economic Development Commission estimates a healthy $714,110 of new local annual tax revenue if 1,600 jobs are created. Again, that is only the local benefit. The State would gain almost $900,000 in new revenues. The Federal purse would also expand. Even if enterprise zones reduce the average corporate tax burden by 75 percent, as has been estimated, these new jobs would still result in $2.5 million in new annual Federal tax revenue, and that is just McAllen's contribution, miniscule to the anticipated national impact of 75 enterprise zones proposed.

Another point, particular to McAllen, has relevance in the discussion of tax adjustments targeted for economic growth. McAllen is the home of the Nation's most successful foreign-trade zone. As you are aware, foreign-trade zones provide incentive to private investment by reducing the cost of doing business vis-a-vis fewer duty fees. Through the foreign-trade zone program, McAllen has created over 1,700 jobs, jobs that are unaffected by Mexican economic fluctuations. In 1982, our foreign-trade zone handled over $1.3 billion worth of goods and contributed more than $300 million toward our national balance of trade.

In McAllen, we know from our trade zone that tax incentives work. They attract expanding industries. They create jobs. They add economic stability to our community which is especially vulnerable to international economic tremors. The McAllen Chamber of Commerce has committed itself toward the enterprise zone program as provided by H.R. 1955.

We desperately need to, one, stabilize our economy through diversification of our economic sectors; that is, move away from retail trade aimed at the Mexican buyer and move toward light manufacturing; and, two, create long-term jobs for our families. We strongly believe the enterprise zone program before you today can provide a much needed vehicle to accomplish both objectives.

We believe that McAllen and other border cities have a unique opportunity to participate in the program. If successful, it will give us the needed capacity to make infrastructure expansion required for industrial developments and set into motion innovative and visionary planning, financing and intergovernmental cooperation.

If enterprise zones approach their potential, they will alleviate the need that massive Federal expenditures in the past have failed to meet. If they are a failure, they will have virtually no budgetary impacts. In the final analysis, an enterprise zone in McAllen, or for that matter any border community, may very well be the best long-term solution to our unemployment program. Putting people to work permanently will reduce crime, improve living conditions, lessen everyone's tax burdens and generally improve the quality of life for all of our border communities.

Thank you, Mr. Chairman.

[The Enterprise Zone Fact Sheet follows:]

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ENTERPRISE ZONE FACT SHEET

McALLEN CHAMBER OF COMMERCE, McALLEN, TEXAS 78502

PURPOSE

ENTERPRISE ZONES WILL STIMULATE THE FREE-MARKET ENVIRONMENT IN ECONOMICALLY DISTRESSED AREAS THROUGH RELIEF IN TAXES, REGULATIONS AND OTHER GOVERNMENTAL BURDENS. THE PROGRAM WILL NOT INVOLVE FEDERAL FUNDING, BUT WILL FOCUS ON THE REMOVAL OF IMPEDIMENTS TO THE FREE ENTERPRISE SYSTEM. TO PARTICIPATE IN THE PROGRAM, LOCAL AND STATE GOVERNMENTS WILL NOMINATE AREAS FOR FEDERAL ENTERPRISE ZONE DESIGNATION. THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT WILL AWARD ONLY 75 ENTERPRISE ZONES NATIONWIDE.

PROPOSED FEDERAL INCENTIVES

1. CAPITAL GAINS TAXES ON INVESTMENTS WITHIN THE ZONES WILL BE ELIMINATED.
2. AN EMPLOYEE OF A ZONE BUSINESS WILL RECEIVE A PERSONAL INCOME TAX CREDIT FOR WAGES EARNED IN THE ZONE EQUAL TO 5% OF THE FIRST $10,500 IN WAGES.
3. ZONE EMPLOYERS WILL RECEIVE A CREDIT FOR HIRING DISADVANTAGED WORKERS EQUAL TO 50% OF EACH WORKER'S WAGE FOR THREE YEARS, PHASING OUT TO 40%, 30%, 20%, AND 10% OVER THE FOLLOWING FOUR YEARS OF EMPLOYMENT. THIS CREDIT HAS NO CAP, WHICH GIVES EMPLOYERS A MAJOR INCENTIVE TO TRAIN AND RETAIN DISADVANTAGED WORKERS FOR HIGHER WAGE JOBS.
4. ZONE EMPLOYERS WILL RECEIVE A CREDIT FOR 10% OF THEIR TOTAL ENTERPRISE ZONE PAYROLL (OR INCREASE IN PAYROLL FOR EXISTING BUSINESSES).
5. INVESTORS WILL RECEIVE ADDITIONAL INVESTMENT TAX CREDITS OF 5% FOR ZONE PERSONAL PROPERTY AND 10% FOR NEW CONSTRUCTION PROPERTY.
6. ALL OF THE UNUSED TAX CREDITS EARNED IN AN ENTERPRISE ZONE MAY BE CARRIED FORWARD FOR 15 YEARS (OR THE LIFE OF THE ZONE WHICHEVER IS LONGER) OR CARRIED BACKWARD 3 YEARS.
7. SMALL ISSUE INDUSTRIAL DEVELOPMENT BONDS (IDBs) WILL CONTINUE TO BE AVAILABLE WITHIN ZONES, AND ACCELERATED COST RECOVERY FOR IDB FINANCED PROPERTY WILL BE PERMITTED, EVEN IF THESE TOOLS ARE PHASED OUT IN THE REST OF THE COUNTRY.
8. GENERAL REGULATORY RELIEF INCENTIVES, WHICH IN EFFECT REDUCE BUREAUCRATIC RED TAPE.

TAKEN AS A WHOLE, THESE INCENTIVES WILL ELIMINATE 75% OF THE AVERAGE CORPORATE FEDERAL TAX BURDEN ON A FIRM'S OPERATIONS IN THE ZONE.

TEXAS ENTERPRISE ZONE INCENTIVES

(EFFECTIVE SEPTEMBER 1, 1983)

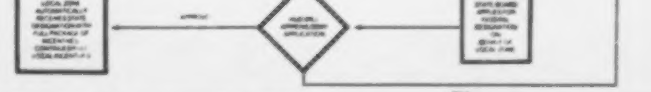
- ● 1. EXEMPTION FROM SALES AND USE TAX FOR GOODS PURCHASED BY ZONE BUSINESS.
- ● 2. EXEMPTION FROM MOTOR-VEHICLE TAX FOR VEHICLES USED IN ZONE BUSINESS.
- ● 3. ELIMINATION OF GROSS-RECEIPTS TAXES (FRANCHISE TAXES) FOR 5 YEARS ON RECEIPTS OF ZONES BUSINESSES.
- 4. LOCAL TAX ABATEMENT AUTHORIZED.
- 5. REFUND OF LOCAL SALES AND USE TAX AUTHORIZED.
- 6. TAX INCREMENT FINANCING AUTHORIZED IN ZONE.
- 7. STATE REGULATORY RELIEF.
- 8. LOCAL GOVERNMENTS AUTHORIZED TO SUSPEND ORDINANCES, RULES AND REGULATIONS IN ZONE.
- 9. GRANT AND LOAN PREFERENCE FROM STATE.
- 10. TAX FREE FINANCING AUTHORIZED FOR ALL ZONE BUSINESSES.
- 11. TRANSFER OF PUBLIC PROPERTY TO PRIVATE SECTOR AUTHORIZED.

● *THE FIRST THREE INCENTIVES ARE AUTHORIZED ONLY IF NATIONAL DESIGNATION IS RECEIVED.*

TEXAS MAY HAVE ONLY 20 LOCAL ENTERPRISE ZONES AT ANY ONE TIME. NO MORE THAN 5 LOCAL ZONES MAY BE DESIGNATED BY THE STATE DURING ANY 12 MONTH PERIOD. NO MORE THAN 10 LOCAL ZONES CAN BE DESIGNATED AS FEDERAL ENTERPRISE ZONES IN THE STATE OF TEXAS.

A STATE ENTERPRISE ZONE BOARD, TO BE APPOINTED BY THE GOVERNOR, WILL ADMINISTER THE PROGRAM BEGINNING SEPTEMBER 1, 1983. THE STATE BOARD WILL REVIEW AND GRANT LOCAL ZONE STATUS. LOCAL ZONES MAY APPLY FOR NATIONAL DESIGNATION THROUGH THE STATE BOARD.

DESIGNATION PROCESS



Mr. **Rangel**. Representative Hinojosa, do you want to supplement the McAllen testimony?

Mr. **Hinojosa**. Thank you, Mr. Chairman.

Mr. **Rangel**. Do you represent McAllen?

Mr. **Hinojosa**. Mr. Chairman, I represent district 41 in the Rio Grande Valley, south Texas. That covers 80 percent of the city of McAllen and the western part of Hidalgo County.

I will be brief, Mr. Chairman, and I will say that I was the sponsor of the State enterprise zone of the State of Texas, and it was passed this past session, and it received bipartisan support. There was not a single dissenting vote, and we had a Democratic Governor, Mark White, who signed it into law, and it went into effect approximately 60 days ago.

We still don't have the experience with the state enterprise zone, but during the past legislature we found out from our research and from talking to different state officials who have enterprise zone that this concept is worth supporting. We feel that in the long run it will stimulate the economy, it will create jobs and will generate tax revenue.

I know there was talk about the drain on the Federal budget, but the areas that will be designated as enterprise zones are zones that are not producing any tax revenue, and we feel confident that those areas, by getting their economy stimulated and by trying to create permanent jobs, would in the long run not only help the local area in tax revenues but the Federal Government.

One of the ways that we would like to see some of those designated areas defined, some of the factors to be considered, would be per capital income of each resident in the area, the unemployment rate, and the reliance on public assistance programs. For example, in the Rio Grande Valley, unfortunately we rely heavily on direct assistance from Federal programs. We would like to change that because that has not been able to reduce the poverty or the unemployment substantially in the Rio Grande Valley.

Of course, we are hoping that if the Federal Government does pass the enterprise zone—and we think it is necessary so we can hand-in-hand, with the State legislation, to be successful—it will help us in our enterprise zone area in trying to deal——

Mr. **Rangel**. You say if it is designated.

Mr. **Hinojosa**. Yes, sir, we are designated.

Mr. **Rangel**. You have been under your program?

Mr. **Hinojosa**. No, sir.

Mr. **Rangel**. You have not been designated by your State?

Mr. **Hinojosa**. We have not. The law is too recent, and we have not had a chance to implement it.

Mr. **Rangel**. Have you reason to believe that you will be designated?

Mr. **Hinojosa**. Well, we think that—we are also optimistic and positive and we feel that we have better than a fair chance to be.

Mr. **Rangel**. Whether you are or not, or whether the Federal law passes or not, you are convinced that the concept is worthwhile anyway, right?

Mr. **Hinojosa**. That is correct.

Mr. **Rangel**. Good.

Mr. Hinojosa. We are here to ask for support of the committee. Thank you.

[The prepared statement follows:]

Statement of Hon. Juan J. Hinojosa, State Representative for District 41—Rio Grande Valley, South Texas

My name in Juan Hinojosa. My address is 5921 N. 23rd Street, McAllen, Tex. 78504. My telehone number is area code (512) 686-2413.

I appear here today in my capacity as the State Representative for District 41 from the Rio Grande Valley of Texas and in support of tax incentives for proposed targeted distressed areas as provided by H.R. 1955.

I represent an area that has the lowest per capita income in the nation. Our unemployment rate is more than 20 percent and poverty is pervasive to the extent that we rely on Federal programs, i.e., Food Stamps, AFDC, and Housing Assistance, for our survival. However, these programs have not eliminated poverty or lowered unemployment substantially.

The enterprise zone concept is one worth experimenting with. Its benefits are based on three known basic factors for a healthy economy; that is, (1) it will stimulate the targeted area's economy, (2) it will increase jobs and (3) it will generate tax revenue in the long run. This would result in jobs and a higher income for my constituents.

It is suggested that the number of target areas be limited until it can be ascertained through emperical data that enterprise zones in fact do what theoretically it is predicted they will do. These targetted areas should be defined according to their per capita income, their unemployment rate, their reliance on public assistance programs and the tax revenue generated by the area. Conceivably, these indicators would provide a guage to measure economic distress in a given area and these same indicators would allow an assessment of the implications and success of an enterprise zone.

The advantages of these tax incentives are that people would no longer rely as heavily on government assistance programs and on-the-job training would provide them with the incentive to break away from continued dependency in those types of programs. There is a sense of self respect when a person becomes self-reliant rather than dependent on direct benefits from the government. Direct program assistance also creates a local bureaucracy which results in administrators becoming more concerned with continued funding for their programs rather than helping people become independent, productive citizens in their community.

Provided a limited number of economically depressed areas with special tax incentives is not unfair. The area will become self-supporting and this would benefit the surrounding areas in two ways:

1. It would stop being a drain on area resources; and,
2. The economy would generate local spending by those employed in the enterprise zone but it would not be limited to that zone.

Addressing myself to Industrial Development Bonds, I believe that they should not be limited to a distressed area. There are areas which are not in a desperate situation but do need economic stimulation. There should be a tighter criteria than exists presently to qualify for Industrial Development Bonds.

Tax incentives, such as tax credits for employing the disadvantaged, a lower tax on capital gains, a tax structure tied to key economic factors in the zone are the types of incentives that should be used to attract capital investment in enterprise zones. Key economic factors such as the rate of unemployment, the decrease in government assistance programs and the increase in the per capita income of the zone are the types of factors that should be used to assess the effectiveness of enterprise zones.

In conclusion, the enterprise zone concept is an approach worth trying. The number of enterprise zones will be limited so that it will not be a drain on the Federal Treasury in the event those zones fail to perform as predicted. Additionally, a "trigger" can be written into the legislation so that, once an area is no longer economically depressed, the tax incentives can be phased out and the area would continue on its own.

Our situation along the Mexican border is desperate and the present existing programs are not effective in revitalizing our economy in South Texas.

The State of Texas has passed a State Enterprise Act. It received bipartisan support without a dissenting vote.

We urge you support and passage of H.R. 1955.

Thank you.

Mr. RANGEL. Thank you.

Ms. Richmond, I got the impression that you were talking about the enterprise zone as it was working, but all of the things that have happened in McAllen are happening without enterprise zones, right?

Ms. RICHMOND. Are you referring to our incidence of poverty?

Mr. RANGEL. No, all the——

Ms. RICHMOND. The 1,700 jobs in our foreign-trade zone?

Mr. RANGEL. Yes, all those. You have been able to do that without the State enterprise zone and without the Federal.

Ms. RICHMOND. The foreign-trade zone is independent of the enterprise zone act.

Mr. RANGEL. I understand that Mr. Haigh is not here, but if you would identify yourself.

STATEMENT OF RANDAL CORNELL TEAGUE, ON BEHALF OF GEORGE W. HAIGH, PRESIDENT, TOLEDO ECONOMIC PLANNING COUNCIL DEVELOPMENT CORP.

Mr. TEAGUE. Thank you.

I am Randal Teague, Washington counsel to the Toledo Economic Planning Council Development Corp. Mr. Haigh was here with us today throughout these hearings. Unfortunately, he had to leave about an hour ago to catch today's last flight to Toledo. He did submit a written statement for the record, and I will request that it be included in the proceedings.

Mr. RANGEL. By unanimous consent, yes.

Mr. TEAGUE. The Toledo Economic Planning Council Development Corp. appears before this committee today in support of the early enactment of H.R. 1955.

Mr. RANGEL. If you are going to read his statement—the statement is in the record.

Mr. TEAGUE. I will summarize, I don't intend to read it.

We appear in support of the proposed act and provisions of complementary economic jobs development and training bills concentrate on Toledo's Warren-Sherman enterprise zone, a successful effort to revitalize this most severely depressed area. Warren-Sherman is the name of that neighborhood, and we refer to it as an enterprise zone because it has been designated as such as Ohio's first.

The zone exists—it is a reality—and like several other witnesses here before you today, we are able to testify as to the experience of that existing zone, what has worked, what has not worked, and what we hope to accomplish if there is enactment of Federal legislation.

Conditions are sufficiently better in Warren-Sherman for us to believe that that strategy we deployed there 4 years ago is working. It is in this respect that we believe that it is a model for demonstrating to the Nation how an enterprise zone can work.

Enterprise zone legislation and the concept underlying it are not without their critics. It is the opinion of the Toledo community that these criticisms must be removed or reduced in order to attain this legislation's enactment. We believe that this should be possible, although it may take the attention of additional committees.

The Conable-Garcia bill, the Mitchell bill and the Nowak bill all adopt some form of designated area concept. The number of areas to be designated differ inconsequentially in the first 3 years. While Conable-Garcia provides more tax incentives, the Nowak bill adopts some enterprise zone aspect but provides tax incentives for employees, and we believe that these bills complement one another.

We believe that the committee should incorporate in the text of the enterprise zone bill to be reported certain provisions of the complementary bills and foremost among these is the expensing provision.

Conable-Garcia provides tax incentives for new investment and increases employment in enterprise zones. These credits are designed to increase the after-tax rate of return. There is a major problem with this. These provisions can apply only to those firms that have taxable profits against which these credits can be taken. Realistically, that is going to be a handful of new businesses. Most new small firms which will be potent job originators will not earn taxable income for from 5 to 7 years. Tax credits will not help these firms. Their problem is capital, specifically a pressing need for venture capital. This is capital not only to use in investment in work force, but also in research and testing new products and investigation of new markets.

Congressman Parren Mitchell's bill addresses this expensing issue in section 232, expense deduction for revitalization business area stock and debentures. Expensing addresses the startup capital problem by offering a tax incentive not just to the enterprise zone firm, which may not have taxable profit, but also to the enterprise zone investor.

We have, Mr. Chairman, in our written statement set forth in detail our views with respect to the expensing option. It is truly one of those that we will hope that this committee will consider and include in any legislation which it reports to the House.

Thank you.

[The prepared statement of George W. Haigh follows:]

STATEMENT OF GEORGE W. HAIGH, PRESIDENT, TOLEDO ECONOMIC PLANNING COUNCIL DEVELOPMENT CORPORATION

SUMMARY

Toledo existing enterprise zone is in the Warren-Sherman neighborhood. It is our successful effort to revitalize a severely depressed inner-city neighborhood. It is an enterprise zone because it was designated as Ohio's first under our State statute. This project's principal goal is the restoration of economic and social stability to a neighborhood that is characterized by high unemployment, poverty and pubic welfare dependency, blighted housing, inadequate job opportunities and other indicators of urban decay. Conditions are sufficiently better in Warren-Sherman today for us to believe that the comprehensive redevelopment strategy underlying that betterment is working. It is in this respect that we believe that it is an excellent model for enterprise zone development.

The Federal role has been crucial to the success of this zone, and it will continue to be. Without the Federal component, Warren-Sherman could collapse, for the elements of its strength remain at a crucial stage. Additional tax incentives will be needed. So too will other forms of direct and indirect assistance: economic development grants, targeted jobs training, etc. It is a reality, however, that the likelihood of the enactment of this enterprise zone legislation by the full Congress may depend on how it is coupled with these other elements.

The enterprise zone legislation is not without its critics. It is our opinion that these criticisms will have to be answered in order to attain enactment of the legislation. We believe there are constructive ways to proceed. For example:

(1) Reps. Conable and Garcia's bill (H.R. 1955), Rep Mitchell's bill (H.R. 1735), Rep. Nowak's bill (H.R. 2375) and Rep. Oberstar's broader bill (H.R. 10) all adopt some form of designated area concept. The number of areas to be designated in the Conable-Garcia, Mitchell and Nowak bills differ inconsequentially during the first three years.

(2) While the Conable-Garcia bill provides most tax incentives for employers and the Mitchell bill provides most tax incentives for employees, they complement one another.

(3) The Oberstar bill provides important means of dealing with the question of a severely limited number of zones to be designated.

(4) The Administration might to able to win support for one or more provisions of its bill, if it accepted the "development strategies" provisions of the Oberstar bill.

These proposals would expand the program contemplated. In the final analysis, however, the question is whether we let the fear of static revenue losses and reasonable levels of additional appropriations drive us into destroying a major source of hope on one hand and a very workable program to genuinely revitalize urban areas on the other. It is a very limited risk worth taking.

STATEMENT

Mr. Chairman and Members of the Committee: I am George W. Haigh, President of the Toledo Economic Planning Council Development Corporation.

I appear before you today in support of the enactment of H.R. 1955, the proposed Enterprise Zone Employment and Development Act of 1983, and of provisions of complementary economic development, jobs creation and training bills.

I appear in this matter on behalf of (1) the Toledo Economic Planning Council Development Corporation (TEPCDC), the development corporation charged with the responsibility of harnessing private resources in and for Toledo's existing enterprise zone; (2) the businesses which have located in that zone and created jobs there; and (3) Toledo Trust Company, of which I am also president and chief executive officer, the principal financial support behind our enterprise zone.

This Committee is to be commended for now turning its attention to this legislation.

Much has been learned since the Senate Committee on Finance's 1981 hearings. That learning includes much more about what zones really do need from the Federal Government. Thus it includes a better perspective on what the Congressional response might have to be to those needs.

In many ways it is because of the delay in enacting this legislation that I requested to appear before you. I testified in the Senate 1981, and again this year, but progress in Toledo's Warren-Sherman urban development area since 1981 warrants an airing of the facts and of the lessons to be extrapolated from them.

The Warren-Sherman enterprise zone

The Warren-Sherman enterprise zone is Toledo's successful effort to revitalize its most severely depressed inner-city neighborhood. Warren-Sherman is the name of that neighborhood, and we refer to it today as an "enterprise zone" because it was designated as Ohio's first under our State statute.

This effort's principal goal is the restoration of economic and social stability to a neighborhood that is characterized by: High unemployment; poverty and public welfare dependency; blighted housing; inadequate job opportunities; and other indicators of urban decay.

While much remains to be done, conditions are sufficiently improved in Warren-Sherman today for us to believe that our comprehensive redevelopment strategy is working. It is because of this that we believe that Warren-Sherman is demonstrating how an enterprise zone can work.

The Warren-Sherman project has attracted considerable national, and even international, attention:

Coverage about it has appeared in "Time" magazine, "Fortune," "The New York Times," "Nation's Business," and "Dunn's Business Month."

In addition to the Senate Committee on Finance and now this Committee, the Joint Economic Committee and the House Committee on Banking, Finance and Urban Affairs have heard testimony in respect to it. The Joint Economic Committee conducted an entire day's field hearing in the zone.

Of particular note, representatives of the cities of Miami, Fla.; Pittsburgh, Pa.; St. Louis, Mo.; Atlantic City, N.J.; Portland, Oreg.; Fayetteville, N.C.; Springfield, Ohio;

South Bend, Ind.; Easton, Pa.; Des Moines, Iowa.; Chicago, Ill.; and Amsterdam have toured it or drawn directly from its experience.

There are at least four principal factors in the restoration of the viability of this area: The comprehensiveness of the redevelopment strategy; the combination of interests brought together by that strategy; involvement of the neighorhood itself; and assistance from the Federal Government.

I think it would be helpful to this Committee to examine each of these factors.

Comprehensive redevelopment.—The most important of these four factors is the comprehensiveness of the project.

As members of Congress know, previous experiences in urban revitalization throughout our country have demonstrated the futility of one-dimensional attempts to deal with urban development problems. It was, thus, recognized at the inception of the Warren-Sherman project that the ability to coordinate effectively economic, social and physical improvements was a mandatory requisite of success. Consequently, this project has been oriented toward viable solutions to a wide range of problems. It addresses jobs creation and jobs training; enterprise development; redevelopment of commercial services; health care; day care; recreation; and other social support services.

Jobs creation was of the most immediate concern, since little impact could be expected from other efforts without employment opportunities for the neighborhood residents. We felt jobs would have to be closely matched with the abilities of the residents and that jobs training programs were essential to the enhancement of those abilities. Some were unskilled, others inadequately skilled and still others skilled for jobs which no longer existed. There has been dramatic improvement in the jobs skill among these residents since the inception of the project, and the Control Data Business & Technology Center and its computer-based training program have had most to do with this improvement.

Support for the development of small businesses was designated into the project, and there has been moderate success in this regard to date. It is here, in fostering the creation and growth of smaller businesses, where much more must be done.

It was obvious that significant improvement of the housing stock was a major need. The project included development of substantial new market-rate housing from its inception. It also included new subsidized housing and extensive rehabilitation. Much more must be done in this respect too, and the apparent return of rates of interest to historical norms should assist in this respect.

The neighborhood had no local convenience of commercial services, and in this respect there has been substantial improvement. A neighborhood shopping center of 50,000 square feet has been completed.

Health care, day care, and other social services have been dramatically improved since the project's inception.

In summary, the Warren-Sherman project addresses the need to deal with all of the major problems of a blighted urban neighborhood. We know, for sure, that jobs without improved housing, commercial redevelopment and improved social services will lead to further abandonment, for persons will refuse to live in the area where they work. On the other hand, improvements in social and physical characteristics of the neighborhood without providing mainstream economic participation for the residents is unlikely to lead to a viable neighborhood.

The bottom line on this is that, while the coordination of such multiple efforts is difficult, any approach less comprehensive would not be successful.

Combination of interests.—Another major factor contributing to the success of this project is the combination of interests which have worked, and are continuing to work, to make the plans on paper realities on the ground. These interests are the private sector, the public sector and a non-profit developer.

The private sector involvement is led by Toledo Trust Company, Toledo's largest financial institution, and the Toledo Economic Planning Council Development Corporation. They have been instrumental in obtaining private sector support, investment and job commitments, and in arranging financing for various project components. While their willingness to take a lead role and their contacts throughout the business community have been important, they have not stood alone. Owens-Illinois' new corrugated box plant has been built within the zone, and it created new—not relocated—jobs. Control Data Corp., has made a substantial neighborhood investment in developing the Business & Technology Center to which I have referred.

We cannot overlook the importance of the commitments these larger corporations have made. We refer to it as "anchoring a zone." It is a vitally important thing to have happen and an important concept to understand. Risks have actual and potential costs to businesses, and larger corporations are more capable of assuming risks directly or having their risks shared than are smaller businesses. Assuring security of the physical plant, inventory and work force is but one example. Only when a zone has the framework for such security—and major corporations' facilities are critical pieces fo that framework—does the economic and emotional security of other businessmen follow. Persons contemplating enterprise zones as block after block of mom-and-pop grocery stores fail to realize this. They should go talk with those moms and pops.

The local public sector is represented by the City of Toledo and its Department of Community Development and more broadly by the State of Ohio. They have taken responsibility for all public improvement incuding housing, land acquisitions, and street and utility upgrading. The City's strong support for this project has ensured that available public sector resources have been directed to the project. The commitment of the State of Ohio has been active and has taken two forms: First, State aid for certain aspects of the revitalization of the area and the broader community, and second, enactment of the State statute on enterprise zones under which Warren-Sherman has been designated.

The third partner in this triad of interests is the Toledo Economic Planning Council (TEPC). They have served as the overall project sponsor, and as the developer of the 23-acre Warren-Sherman Industrial Park.

The cooperation of these participants—the private sector, the public sector and the developer—has been a principal ingredient in Warren-Sherman's success.

Neighborhood involvement.—Third major factor in the success of the Warren-Sherman area and a critical one is the way in which its residents have participated in this project. One of the primary concerns in planning this project was to ensure that the benefits accrued to the residents. It was important to create a situation in which those residents would be able to obtain new jobs and to afford improved or new housing in their neighborhood. It was also crucial that the inevitable increase in the value of used of the properties not drive them out and that they knew that this would not be allowed to occur. Consequently, neighborhood residents, under the leadership of a strong neighborhood organization, the Warren-Sherman Community Council, have been involved extensively in this project since its beginning. They have participated in establishing project goals, planning project elements, and taking part in implementing their components. Early and continued participation by these residents has not only ensured their acceptance and support but has also improved project concept through the utilization of their suggestions and desires.

Particular focus must be given to the success of neighborhood involvement. It is one thing to have government officials, city planners from within the private sector, non-profit developers and others tell Congress of the importance of neighborhood involvement. Is is quite another thing, and I believe a convincing one, to have the neighborhood tell you of its importance. In testifying at the Joint Economic Committee's Subcommittee on Trade, Productivity and Economic Growth at its November 23, 1981 field hearing in Toledo, Inez Nash, the president of the Warren-Sherman Community Council, made some points worthy of your Commttee's consideration. I quote:

"The Warren-Sherman Community Council has been the backbone of the Warren-Sherman neighborhood since the early 1950's.

"During the 1960's urban renewal era, we began to experience a rapid outmigration of residents. In part, this was due to the national shift from urban to suburban living. It was also due to the emphasis of the urban renewal program.

"In the early 1970's, the community development era was upon us. We found ourselves left with a neighborhood which had physically deteriorated. Our neighborhood organization remained strong, but left behind were residents who were unskilled, unemployed and poorly educated. We were told that community development dollars would be allocated both by the city and through the community development participation process. There we were: competing with other neighborhoods whose needs were not as great as ours, yet educationally experienced enough to effectively maneuver the 'citizen participation process.'

"During 1979 at the request of George Haigh, the president of Toledo Trust, City Venture Corporation was invited into Toledo to meet with members of the Warren-Sherman Community Council. We met in the home of the late Rev. Robert Moody, a resident. * * * We were impressed because City Venture talked about jobs. * * * City Venture Corporation talked about education. In 1979, 40 percent of all residents had not even achieved a high school diploma. * * * In 1979, 75 percent of all properties in our neighborhood needed major repairs. * * * City Venture talked to us about housing. * * * In 1979, 75 percent of all properties in our neighborhood needed major repairs.* * * City Venture discussed ways in which to work with our existing day care and health care committees in order to maximize the delivery of those services.

"The Warren-Sherman Community Council has been totally involved in the process ever since that first meeting in the home of the late Rev. Moody in 1979. Our committees [executive, economic, housing, education and health] worked directly with City Venture, representatives of the City of Toldeo and Toldeo industries to put together the Warren-Sherman revitalization plan. The importance of this involvement was that we were directly involved with assessing the needs and defining activities and programs for our neighborhood.

"The Warren-Sherman Community Council is the Community Partner. We define the needs."

Those quotes are from a black woman, a committed civic activist who not only lives in this neighborhood but also makes its interests her strongest commitment.

1981 and 1983

Mr. Chairman, the Senate Committee's hearing record of July 13, 1981 speaks to the status of the Warren-Sherman neighborhood revitalization project at that time. Much had been done, but much more was planned. However, some in Washington may have wondered then, however, just how much of that planning would become additional realities. Our response is given to you today, and it is, "Much!"

Let me be specific.

Control Data Business & Technology Center.—This Business & Technology Center (BTC) is a small business incubator. It is the heart of our zone. It offers, in addition to industrial and commercial space, a wide variety of services generally unavailable or too costly for small, growth oriented firms. The facility consists of a $7 million investment in a complete rehabilitation of an old 200,000-square-foot industrial plant located in the Warren-Sherman Industrial Park.

Today, BTC houses 24 new businesses, half of which are minority owned. Those businesses employ 250 people, 80 percent of whom are minorities and 70 percent of whom are residents of the Warren-Sherman area. Over 50 percent of the floor space has been leased too. A list of the present tenants of this incubator facility is a part of my statement.

Owens-Illinois Corrugated Shipping Container Plant.—In 1981, we could only indicate that the Owens-Illinois corrugated shipping container plant site had been selected.

This facility opened this spring. It is a new, 50,000-square-foot manufacturing facility, and it too is located in the new Warren-Sherman Industrial Park. It constitutes an investment of approximately $3 million, and most of its employees are residents of Warren-Sherman, too.

Magnetic Peripherals, Inc.—In 1981, we told Congress that Magnetic Peripherals, Inc., a manufacturer of cable and harness assemblies, intended to locate a new operation in Toledo.

Today, it is there in the Warren-Sherman revitalization area. It is located within the BTC, utilizing about 50,000 square feet of industrial space there. The investment here is approximately $1 million, and it is employing about 115 people, which is more than contemplated in 1981.

The Bancroft-Franklin Shopping Center.—One of our principal concerns in 1981 was the lack of retail shopping facilities within the zone, facilities which not only provided badly needed services but which also hired people and generated payrolls. In 1981, we were so far away from this project that we did not even yet have a name for it.

Today, the Bancroft-Franklin Shopping Center has been completed. The grand opening of this 50,000-square-feet facility was in early summer. The shopping center houses a grocery store, a hardware store, a laundromat, a fish market and a half-dozen other shops.

Toledo Trust Company arranged the financing for this shopping center, and as an additional act of our commitment and faith in its future, we did so at less than market rates of interest.

Warren-Sherman Management and Maintenance Co.—In 1981, we had only the concept that a property management and maintenance services company would be needed in respect to the industrial park, the shopping center, the residential developments, etc. We knew we though it should be minority-owned and managed, and that it should be a for-profit corporation.

In 1983, the Warren-Sherman Management and Maintenance Company is an Ohio corporation. It has contracts with the BTC, the industrial park and a branch of Toledo Trust Company. It provides general maintenance, as well as snow removal, lawn mowing, etc.

The company is now adding security forces and strengthening itself by entering into contracts to provide similar services outside the zone, specifically in the waterfront redevelopment area of Toledo.

Brown Packaging and Bindery, Inc.—This for-profit minority enterprise, whose establishment was assisted by City Venture Corporation and Control Data, provides packaging, binding, and imprinting services. It is located in the annex of the Control Data Business and Technology Center, providing parttime employment to neighborhood residents and work site experience to particpants in the Control Data Fair Break Program.

Shumaker, Loop and Kendrick.—Toledo's largest law firm made a $4.3 million investment in a substantial rehabilitation of an aging commercial facility as a site for their new law offices. Located on the edge of the Warren-Sherman neighborhood adjacent to downtown, this project creates a strong bridge between downtown and the Warren-Sherman area and greatly enhances commercial property values.

Training programs.—Over 850 students will have received computer-based remediation and skills training by the end of 1983 through the Scott High School Training Program. Many of these students have already been released from full-time participation in the training program and are working half days with for-profit businesses in the zone.

Other.—Much more than those specific hallmarks of progress which I have just noted have occurred within the Warren-Sherman area. These include small businesses, new commercial and service facilities, improved housing, health care and day care.

An invitation.—We take the opportunity of these hearing to invite any and all persons with an interest in the enterprise zone concept in general and Warren-Sherman's successes in particular to come to Toledo to tour the zone, to meet with its leadership, and to learn from its experiences. There are only a small handful of existing areas throughout the country which have demonstrated that they will succeed, and Toledo is one of them and, in that context, a model for others.

Our invitation extends to Members of Congress and their committee and legislative staffs, to officials within the departments and agencies, to other cities, etc.

This enterprise zone in context.—It should be noted that what anyone touring Warren-Sherman will see is how a broader community can help in a zone and how a zone can help that broader community.

An enterprise zone, a revitalization area, or whatever one wishes to call a project like Warren-Sherman does not stand in isolation. Its redevelopment is essential to the growth of areas around it, as is the growth of those areas to the future of the zone. Toledo is experiencing a significant redevelopment, in spite of its continuing problems with businesss relocations to areas outside of the region and the loss of jobs from that and with a general decline in that particular part of our economy associated with automobiles. Unfortunately, the latter includes nearly every principal industry in Ohio: steel, rubber, glass, automotive manufacturing itself, as well as other component parts manufacturing. Yet our waterfront is being totally redeveloped, and that includes the Owens-Illinois new world headquarters, the new Toledo Trust headquarters and a waterfront development, known as Portside, by the Enterprise Development Company, headed by nationally known developer James Rouse. It is our belief that each will reinforce the other, providing jobs, income, tax revenues, etc.

Warren-Sherman as a lesson: The role of the Federal Government

It is appropriate to set the Federal role in a context, and I can best do that in relationship to the Warren-Sherman experience.

The Federal role to the present.—The Federal role to date has been crucial to the success of this zone, and it will continue to be in the future. It is the fourth factor contributing to its success. This Federal role has not been principally that of the provider of tax incentives, although existing Federal tax incentives have helped. The Federal role to date has been principally through forms of direct assistance, including in particular Urban Development Action Grants (UDAG) and targeted jobs training programs. We have an improved infrastructure in the area of the zone because of Federal assistance. We have improved jobs skills because of Federal assistance. Yet that assistance has not been necessarily any greater than or any less than any other urban distressed area, for the qualification criteria which apply to one apply to all. Our success has been magnified because we have, we believe, more consciously applied the resources provided by the Federal Government in a more targeted, and therefore a more careful, way.

The Federal role in the future.—The Federal role in the future will remain critical. Without a Federal component, it is safe to say that Warren-Sherman could collapse as a viable undertaking, for the elements of its strengths remain at a crucial stage. Additional tax incentives will be needed. So too will other forms of direct and indirect assistance: economic development block grants, targeted jobs training, etc. It is not the role of the legislation before you nor the subject or your Committee's jurisdiction under the Senate Rules to deal with all the components of what these zones will need. It is a reality, however, that the likelihood of the enactment of this legislation by the full Congress, which includes the House of Representatives, may well depend on how the enterprise zone concept and legislation is coupled with these other elements of Federal assistance.

The enterprise zone concept is not without its critics. Earlier this year, the combination of those critics and those other persons just not really convinced of the need for this legislation precluded its enactment. That is a reality, but it is one which can be avoided.

The historical record might as well reflect what these problem areas are. I believe they are at least as follows:

(1) How to win support in a national legislative body which reflects development needs in nearly every State and area in the country, for legislation which is limited to a maximum of seventy-five zones over three entire years;

(2) How to win support for what appears to be principally a Republican measure—although it is not—in a House of Representatives not only of the other party but deeply concerned about the impacts on all cities of the Administration's fiscal; and

(3) How to persuade that Administration that there are elements of enterprise zone development beyond tax incentives and a very limited number of other measures, including deregulation, which are as essential to assuring their successes as tax incentives.

There are other problems as well.

It is our opinion that these obstacles must be removed or reduced in order to attain enactment of this very important legislation.

We believe there are very constructive ways to remove or reduce these obstacles. For example:

(1) The Administration-supported bill of Reps. Conable and Garcia, the proposed Enterprise Zone Employment and Development Act (H.R. 1955), Rep. Mitchell's Community Assistance and Revitalization Act of 1983 (H.R. 1735), and Rep. Nowak's Enterprise Development and Industrial Revitalization Act of 1983 (H.R. 2375), all of which are before this Committee, and Rep. Oberstar's bill (H.R. 10), which is not, all adopt some form of designated area concept. The number of areas to be designated under the Conable-Garcia, Mitchell and Nowak bills differ inconsequentially during the first three years.

(2) While the Conable-Garcia and Nowak bills would provide most tax incentives for employers in zones and the Mitchell bill would provide most tax incentives for employees, these provisions complement one another.

(3) The Administration might be able to win support for one or more provisions of the Conable-Garcia bill if it accepted additional provisions of the other bills.

These proposals would expand the program contemplated. They would add to the initial costs in terms of static revenue losses to the Treasury and to the initial costs in terms of appropriations. We believe, however, that dynamic revenue gains will offset both. In the final analysis, the question is whether we let the fear of such static revenue losses and reasonable levels of increased appropriations drive us into destroying a major source of hope on one hand and a very workable program to genuinely revitalize urban areas on the other.

I wish to make it clear that these are our ideas I have not personally discussed this strategy with a single person in the Administration. I am laying out a strategy grounded in logic, not the legislative realities which you must face, but I do believe strongly that if everyone would "give a little here to get a little there" on this important legislation, we could win prompt enactment.

This is our context for examining the provisions of H.R. 1955.

The enterprise zone and Employment and Development Act of 1983

Let me address several principal questions about H.R. 1955.

Designation criteria.—We have analyzed the designation criteria set forth in H.R. 1955 in depth, and while we might quibble in some minor ways, we have no objection to their enactment.

Tax incentives.—We believe this Committee should incorporate in the text of the enterprise zone bill to be reported certain provisions of complementary bills.

Foremost among these is an "expensing" provision.

The Conable-Garcia bill provides tax credits for new investment and increased employment in enterprise zones. These credits are designed to increase the after-tax rate of return. There is a major problem with this: These provisions can apply only to those firms that have taxable profits against which credits can be taken. Realistically, that is going to be a handful to new businesses.

Most new small firms, which ought to be potent job generators in distressed areas, simply do not earn taxable income for at least 5 to 7 years. Tax credits will not help these firms. Their problem is capital, specifically, the pressing need for venture capital. This is capital to use not only to invest in new equipment and workforce, but also in research and testing of new products, and the investigation of new markets.

Representative Mitchell's bill (H.R. 1735) addressed this "expensing" issue in Section 233, Expense Deduction for Revitalization Area Business Stock and Debentures.

Expensing addresses the start-up capital problem by offering a tax incentive not just to the enterprise zone firm, which may not have taxable profit, but also to the enterprise zone investor. This investor, likely to be a high-income individual in the 50 percent tax bracket, can deduct the cost of enterprise zone stock. This balances the higher risk involved in enterprise zone venture against a potentially far-greater after-tax rate of return for the investor. This risk is also borne by the taxpayers best able to afford it.

This expensing device is carefully targeted. Eligible enterprise zone stock could be issued only by qualified enterprise zone corporations, as defined in the proposed Act. These corporations which (1) are "actively engaged in the conduct of a trade of business within an enterprise zone," (2) "with respect to which at least 80 percent (of the corporation's) gross receipts for the taxable years are attributable to the active conduct of a trade or business within an enterprise zone," and (3) "with substantially all of their tangible assets located within an enterprise zone." Additional protections have been added to prevent abuse of the funds.

We also believe the additional incentives for employees found in the provisions of the Mitchell bill are worthy of consideration. Employee participation in equity ownership of businesses is important to harnessing additional commitment of employees to the success of businesses. Further, equity ownership by employees who live and work in these zones will add substantially to their understanding of the issues which the managers face in building these businesses into permanent enterprises.

Lastly, we believe the property rehabilitation incentives and the energy conservation incentives, both for residential and commercial purposes, contemplated in the Mitchell bill are worthy of your consideration. I do know that both would be helpful to the continued development of Warren-Sherman.

Reducing overregulation.—This is an important area, but it goes far beyond regulation by the Federal Government. We have seen as much, if not more, unnecessarily burdensome regulation as a result of State and local policies, statutes, ordinances, etc. We believe that the reduction of regulation in terms of enterprise zone development is going to be much more the purview of State and local governments.

Warren-Sherman and the future

It could be said, in light of the success of the Warren-Sherman project, that it is proof that additional Federal assistance and tax incentives are not needed. That is wrong. It reflects a gross misunderstanding of what is required to sustain that success.

The success of Warren-Sherman is not assured. We must still attract a minimum of 1500 new jobs to the zone over the next three years; that is 500 new jobs per year. It is apparent that much more will have to be done as to small business, and it is as apparent that this could be greatly assisted by tax incentives possible within the legislation before you. The proposed enterprise stock deduction is foremost among these. Warren-Sherman does not have good transportation access, and assistance will have to be found to assure it; this could become a severely limiting problem. Because it is located in the core of the inner city, where jobs skills have declined drastically, they will have to be upgraded and/or reattracted to the zone; thus, additional jobs training assistance is mandatory. Lastly, while the zone for which we would seek an enterprise designation under the Federal plan would include the present Warren-Sherman area, it would be larger and therefore different.

The future of Warren-Sherman does, therefore, depends substantially on what this Committee, House and Congress can do to enact this legislation, hopefully with improving amendments. We hope that is at the earliest possible date.

We remain ready to assist in whatever ways are possible. It is an idea worth trying.

Thank you.

WARREN-SHERMAN—STATUS REPORT, OCTOBER 1983

1. *Project.*—Control Data Business & Technology Center.

Description: A small business incubator, offering in addition to industrial and commercial space, a wide variety of services generally unavailable or too costly for small, growth oriented firms. This project consists of a $7 million investment in a complete rehabilitation of an old 200,000 square foot industrial facility located in the new Warren-Sherman Industrial Park.

Current Status: The facility opened for business in June, 1981. It currently has 24 new businesses, half of which are minority owned. Fifty percent of the available space is leased.

2. *Project.*—Magnetic Peripherals, Inc.

Description: This company, a manufacturer of cable and harness assemblies, located a new operation in Toledo, in the Business and Technology Center, utilizing about 50,000 square feet of industrial space. Plans called for an investment of approximately $1,000,000, with 100 employees on board by January, 1982. A substantial number of these jobs are to be held by Warren-Sherman residents.

Current Status: Currently over 115 employees have been hired.

3. *Project.*—Owens-Illinois Corrugated Shipping Container Plant.

Description: Owens-Illinois will open a new 50,000 square foot manufacturing facility in the new Warren-Sherman Industrial Park. This facility will involve an investment of approximately $3 million, and will employ approximately 20 people initially, most of whom will be Warren-Sherman residents.

Current Status: Construction of the facility is complete. The plant opened in February, 1983. The work force includes 21 people who were placed through the job bank. Twenty employees are residents of the neighborhood.

4. *Project.*—Warren-Sherman Industrial Park.

Description: This 23 acre Urban Industrial Park, being developed by The Toledo Economic Planning Council, will provide sites for approximately 250,000 square feet of new light industrial facilities, and utilizes innovative design techniques because of the urban nature of the park. Tenants will make substantial commitments to the hiring of Warren-Sherman residents.

Current Status: Phase I, consisting of preparation of a parking area serving the Business and Technology Center was completed in 1981. Phase II, consisting of the acquisition of properties, development of parking areas, sidewalks, and installation of informational kiosks and public access areas is complete. Six development parcels are available. One has been leased by Owens-Illinois. A program to market the other parcels is underway.

5. *Project.*—Brown Packaging and Bindery, Inc.

Description: This for-profit minority enterprise, whose establishment was assisted by City Venture Corporation and Control Data, provides packaging, binding, and imprinting services. Located in the annex of the Business and Technology Center, this company provides part-time employment to neighborhood residents, and work site experience to participants of the Control Data Fair Break Program.

Current Status: This business has been operating since March, 1981 and currently has 11 employees.

6. *Project.*—Scott High School Training Program.

Description: The training program was begun in the Fall of 1981, and offers computer based remediation and skills training. The program is funded by an $800,000 grant from the State of Ohio. Some students have the opportunity to combine their training with on-the-job experience in the Warren-Sherman area. The training center is also being used by the adult education program in the evenings.

Current Status: The program began midway through the 1981–82 school year and enrolled 450 students. Approximately 400 students are enrolled for the 82–83 school year. Since the program began, 100 students have worked part-time at Magnetic Peripherals, Inc. while attending school.

7. *Project.*—Shumaker, Loop & Kendrick.

Description: Toledo's largest law firm made a $4.3 million investment in a substantial rehabilitation of an aging commercial facility as a site for their new law offices. Located on the edge of the Warren-Sherman neighborhood adjacent to downtown, this project creates a strong bridge between downtown and the Warren-Sherman revitalization, and greatly enhances commercial property values in the neighborhood.

Current Status: This project was completed in July, 1981, when Shumaker, Loop & Kendrick took possession of their new facility.

8. *Project.*—Warren-Sherman Management and Maintenance Company.

Description: This for-profit company, which is owned and operated by the Warren-Sherman Community Council, was formed to provide a wide range of property managment and maintenance services to the Warren-Sherman Industrial Park, shopping center, residential developments, and other customers. Targetted initially to

Warren-Sherman opportunities, this operation has potential for serving a much larger market.

Current Status: The company has been organized with the assistance of City Venture Corporation. Seventeen employees have been trained through a CETA funded program. Contract exist with the Business & Technology Center as well as a branch bank for snow removal and other services. The firm is also expanding to include a trained work force of security guards. Contracts are being negotiated for the firm's services at several downtown redevelopment projects.

9. *Project.*—Warren-Sherman Housing.

Description: In response to a need for improved housing and increased owner occupancy in the Warren-Sherman neighborhood, a wide variety of housing developments are underway. The initial project involved a demonstration of total rehabilitation and solar technology for a typical neighborhood dwelling, a six-plex. Plans call for rehabilitation of older neighborhood housing, and development of new market rate housing.

Current Status: 40 units of housing designed for the physically handicapped and families will begin construction in 1984. The project has been approved by HUD and will be developed under a co-operative ownership plan. 235 units of market-rate housing will begin construction in mid-1984.

10. *Project.*—Warren-Sherman Parental Enrichment Program.

Description: This program, located in the Bancroft-Kent neighborhood center, provides a variety of educational services and programs designed to aid young parents and their children.

Current Status: Funding for the initial year of operation has been provided by a grant from the United Way. The facility began operation in March, 1982. Additional funding is being sought to continue the program.

11. *Project.*—Bancroft-Franklin Shopping Center.

Description: This is a 50,000 square foot shopping center at the southeast corner of Bancroft and Franklin. It will be anchored by a supermarket and include as other tenants: a drug store, hardware store, clothing store, game arcade, coin-operated laundry, a fish market, card shop, beauty salon, health spa, and several other, tenants. Minority ownership is being encouraged.

Current Status: Grand Opening for the shopping center was held October 13, 1983. Five businesses are open with five additional ones to open by late 1983.

12. *Project.*—Bank/Professional Office Building.

Description: This will be an 12,500 square foot building at the northeast corner of Bancroft and Franklin Streets in the heart of the Warren-Sherman neighborhood. It will house a full-service Toledo Trust branch bank office with drive-up window, as well as professional offices for attorneys, physicians and other professionals.

Current Status: Construction began in early October, 1983. To be open in mid-1984.

13. *Project.*—Urban Jobs and Enterprise Zone.

Description: The State of Ohio has certified an area comprising 1,418 acres having its principal focus on Warren-Sherman as an enterprise zone under Ohio's Urban Jobs and Enterprise Zone Act.

Current Status: In the Fall of 1982, the City of Toledo received the State's first certification which allows the City to negotiate a package of benefits including real property tax exemptions and personal property tax exemptions as inducement to businesses to either expand within or locate in the certified zone. TEPC is marketing and managing the Enterprise Zone of the City of Toledo. The City of Toledo is prepared to apply to the Federal Government for designation as a Federal enterprise zone, when such legislation is enacted by Congress.

Mr. **Rangel**. Thank you very much.

Mr. Frazier.

STATEMENT OF MARK FRAZIER, DIRECTOR OF PUBLIC POLICY PROGRAMS, SABRE FOUNDATION

Mr. **Frazier**. Mr. Chairman, we welcome the opportunity to appear before you today. In the next few minutes, our foundation would like to provide an overall summary of the activity and operational State enterprise zones. We have a more extended description of the survey available for the written record.

In the past 2 months, our group has systematically questioned public officials at the State and local level about their experiences with the new zones. Although these zones average less than 9 months in age, they have already made tangible progress in revitalizing distressed urban and rural areas.

Enterprise zones today are operational in 182 communities in 9 States. In addition, 12 States have adopted enterprise zone programs that have yet to become operational. It is interesting to note the bipartisan nature of the support in the States; Democratic States—States simultaneously with Democratic Governors and with Democratic majorities in both houses—account for almost two-thirds of the zone enactments to date.

Clearly, enterprise zones have been widely recognized as promising instruments for creating new jobs and promoting business expansion.

The question has arisen, are the enterprise zones actually delivering results? To determine that answer we have sent out hundreds of questionnaires to the responsible officials and conducted over 100 telephone interviews. I would like to summarize the findings.

First, are enterprise zones creating new jobs? The answer, is yes. State designated zones today can claim 20,000 jobs either in place or pending. Of that number, 4,601 jobs were attributed to business startups and expansions with the enterprise zones. In the opinion of the officials administering the local enterprise zone programs, another 4,085 jobs have been saved when companies which were planning to go move out of the area changed their mind as a result of the enterprise zone incentives. These companies were among the larger employees in the area in many cases and were predominantly in the manufacturing sector.

Officials have reported plans for an additional 8,477 hirings by zone-based entrepreneurs, and they estimate that there are 3,108 further jobs that will be created when companies who have made application to operate in the zones are approved.

Another issue that has come up is who is hired in the enterprise zones. We were unable to find many cities tracking that in detail, but there were five communities that had good tracking systems in place.

These communities found that the proportion of the hires that went to the unemployed or disadvantaged ranged from roughly 23 percent on up to 100 percent of the new workers in the zones. Overall, we estimate that approximately 30 percent of the new jobs generated by the enterprise zones are going to people who are now in or on public assistance or unemployment compensation.

The survey found in addition that the businesses benefiting from the enterprise zones are disproportionately in the manufacturing sector. This is particularly significant because of concerns over how to retain our industrial base.

A concern has been expressed over the relocation of businesses into enterprise zones from outside. We found less than 3 percent of the 348 business projects active in enterprise zones to be relocations. In some of those cases, moreover, it was simply a case of outgrowing facilities outside the zone and needing room to expand operations. The overwhelming share of enterprise zone activity came from expansions of zone-based businesses and from new business start-ups. As for the magnitude of business investment, $450 million so far has been either put in or committed according to State and local officials.

The final item that I would like to spend a moment on is the fiscal impacts of the enterprise zones at the State and local level. The survey found clear evidence that the tax revenue losses are being offset by reductions in spending demands.

As noted before, the State programs—which are roughly one-fifth as powerful as the Federal program would be—can claim approximately 20,000 jobs already in place or in progress, with roughly 30 percent of these jobs going to people who now depend on public support. That yields savings of roughly $36 million from the State program alone as a result of reduced unemployment compensation or income support claims. The Federal estimates of fiscal impacts have so ignored the reduced spending demands.

In addition, Federal estimates of the revenue impacts of enterprise zones have completely overlooked that a number of the new enterprises in the zones would not have occurred had it not been for zone incentives. The Treasury Department estimates have assumed reallocation of economic activity instead of generation of new businesses and new jobs. We did find cases where companies would not have expanded or would not have gotten started up had it not been for the climate the enterprise zone offered. In short, enterprise zones add to the wealth of communities.

Finally, I would like to mention aspects of the Texas and Kentucky programs which also bear on the fiscal impact of enterprise zones. In both cases the legislatures have encouraged the transfer of publicly owned lands in the zones to the residents of the areas.

These lands frequently have very little value because of high crime and blight. But the enterprise zone incentives coupled with effective neighborhood action to improve the investment climate can double, triple or quadruple these values and the revenues from these properties to the residents of the community will again strengthen then their self-sufficiency.

Thank you. I will now offer our survey findings for the record.

[The prepared statement follows:]

STATEMENT OF MARK FRAZIER, DIRECTOR OF PUBLIC POLICY PROGRAMS, SABRE FOUNDATION

The Sabre Foundation is pleased to present to the Committee a summary of progress made to date by operational enterprise zones. For the past two months, our group has systematically questioned public officials at the state and local level about their experiences with the new zones. Although these zones average less than nine months in age, they have already made tangible progress in revitalizing distressed urban and rural areas. We believe that experiences of state-designated zones will be useful to the Committee in its consideration of proposed federal legislation.

Enterprise zones today are operational in 182 communities in nine states. In addition, 12 states have adopted enterprise zone programs that have yet to become operational. It is interesting to note the bipartisan nature of the support in the states; Democratic states (states with Democratic governors and with Democratic majorities in both houses) account for almost two thirds of the zone enactments to date. Clearly, enterprise zones are being recognized as a promising instrument for creating new jobs and business opportunities.

But have enterprise zones actually begun to deliver results? To determine the answer, Sabre sent out hundreds of questionnaires to state and local officials, and followed up with more than a hundred telephone interviews. The findings indicate that a number of enterprise zones have made noteworthy progress in a surprisingly short period.

The survey concentrated upon three aspects of enterprise zone performance: employment, business investment, and fiscal impacts. The survey results give new evidence to address the following questions around which the enterprise zone debate has revolved:

Do enterprise zones lead to the creation of new jobs?

Yes. To date, state-designated zones can claim 20,271 jobs in place or in progress. Business startups and expansions within zones have already generated 4,601 jobs. In the opinion of officials administering local zone programs, another 4,085 jobs have been saved when businesses planning to move out of a depressed area had a change of heart after the enterprise zone was declared. (The "saved" companies were typically among the largest employers in their areas, and several have subsequently expanded.) Officials also reported plans for an additional 8,477 hires by zone-based enterpreneurs, and estimated that 3,108 further jobs will be created by firms whose applications for zone operation are now pending.

Jobs created or saved in enterprise zones have frequently proven significant for sponsoring communities. In Norwalk, Connecticut, for example, the saving or creation of approximately 1,000 jobs in the past year represents a substantial share of the 5,000 jobs that were in the zone area at the time of designation.

Who is hired?

Evidence from a subsample of communities suggests that unemployed and disadvantaged workers are doing well in enterprise zones. Although few communities have instituted comprehensive systems to track the hiring practices of zone-based firms, five communities have found that expanding firms have been hiring from 23.3 to 100 percent of their new workers from the ranks of the unemployed or disadvantaged. On average, the report concludes, these two categories account for approximately 30 percent of new zone hires.

What kinds of business activity benefit?

Some states and cities indicated that they initially felt enterprise zones would help them primarily to persuade companies to relocate from existing sites in other jurisdictions to their own. The survey found, however, very few relocations. This may change with time, but for the moment the principal gains in employment have come from expansion of established firms and startups of small businesses. The importance of startups and expansions is of particular interest because so many of these areas were dying as centers of business enterprise before the zones were declared.

Given the debate on the decline of American manufacturing and the flight of manufacturing facilities overseas, it is significant that enterprise zones have had a disproportionate impact on manufacturing as a sector. In the economy as a whole, businesses engaged in manufacturing account for less than 21 percent of business enterprises. In the enterprise zones, 29 percent of the new projects are occurring in the manufacturing sector.

How much investment has occurred?

Local and state officials administering enterprise zone programs reported that more than $450 million of private investment has been committed since activation of the incentives in depressed areas. New construction, renovations, and plant expansions were underway in the vast majority of zones surveyed.

What sort of incentives are used?

In zones showing participating strong job generation results, the state and local incentive packages in many cases went beyond tax relief to remove other obstacles to business development. Streamlining regulatory procedures, reducing crime, and stimulating neighborhood cleanup/fixup efforts appeared particularly effective in improving the climate for jobs creation.

What are the fiscal effects of enterprise zones?

The survey found evidence that tax revenue loss is accompanied by reduced spending demands. State and local programs—which are approximately 20 percent as powerful in tax relief as the proposed federal package—to date can claim to have generated or saved 20,271 jobs. About 30 percent of the jobs created in the zones appear to have gone to unemployed workers and residents, including the long-term unemployed, in those cities tracking the hiring practices of firms. Savings for income support programs from such state enterprise zone-induced hirings come to an estimated $36,486,000. Nonetheless, federal estimates of enterprise zone fiscal impacts have overlooked the greater financial self-sufficiency of newly-hired individuals who previously required unemployment compensation or transfer payments for support. Past revenue loss estimates have also assumed that the zones would merely relocate business activity rather than stimulate new startups and expansions. Although the zones have been designated in areas of lagging business activity, state enterprise zones so far have also been the sites of 160 startup firms.

In summary, operational state enterprise zones have given a promising start to a new economic development initiative. Dick Cowden and Dr. Gerald Bonetto, the principal researchers for the survey, conclude that enterprise zones are established a new climate of opportunity in distressed areas for businesses and residents alike. The Sabre Foundation believes that the pioneering efforts of states and localities are pointing the way to more effective national approaches for reversing economic decline.

ENTERPRISE ZONE ACTIVITY IN THE STATES

Summary of Survey Findings

Sabre Foundation November, 1983

INTRODUCTION

States and localities have gained a wealth of experience in the past year with enterprise zones. To date, nine states have activated more than 180 enterprise zones in areas ranging from the inner cities of Connecticut to distressed rural communities in Kansas. As a result of recent legislative action in 10 other states, scores of additional zones will soon be operational.

The Sabre Foundation's survey of enterprise zones represents the first systematic assessment of this enterprise zone activity. On the basis of more than 200 mailed questionnaires and over 100 telephone interviews with state and local officials, it has compiled a comprehensive data base on zone performance. The message of the data is clear: enterprise zones are delivering results.

- **Employment**
  Enterprise zones in several of the states studied have been notably effective in reversing the decline of areas that until recently had been losing jobs by the thousands. The survey has identified more than 8,686 jobs already created or saved in enterprise zones, 8,477 jobs planned to be generated in coming months by zone-based companies, and 3,108 jobs to be created by companies whose applications for zone operations are now pending. In total, the state zones can claim 20,271 jobs in place or in progress.

- **New Investment**
  Private investment has surged into enterprise zones. Incentives offered by zones have been instrumental in stimulating commitments for over $450 million in new construction, expansions and renovations. Capital has flowed into such projects as manufacturing facilities, retail stores, office buildings and home construction and remodeling, much of it in neighborhoods once believed too decayed to recover.

- **Fiscal Impact**
  The survey evidence suggests that enterprise zones may have more favorable fiscal consequences than originally projected. Only a handful of the companies operating in the enterprise zones represent relocations; major growth has come about from expansions of existing firms and from startups that otherwise appeared unlikely to occur in the areas.

Although these results are impressive, they are only the beginning. Most of the zones have been active for less than a year; therefore, the benefits for businesses and workers are still at an early stage.

When enterprise zones first entered public policy debate, considerable uncertainties existed about their potential contributions to the revival of economically depressed areas. This survey resolves most of the concerns. Enterprise zones can indeed stimulate needed jobs and investments soon after their activation. The experiences of pioneering states and localities deserve attention by all who share a stake in revitalizing economically lagging communities.

— Robert B. Hawkins, Jr.
Chairman, Advisory Commission on
Intergovernmental Relations

I. HIGHLIGHTS OF THE SURVEY

In September, 1983, the Sabre Foundation initiated a survey of states and municipalities administering enterprise zones. The purpose of the survey was to reflect the findings of state and local officials regarding performance of their operational zones. Standardized questionnaires were used by project researchers, who compiled information through a mailing of surveys to hundreds of local officials, followed up by telephone interviews with state and local program administrators. A total of 182 communities with active state enterprise zones were identified in the course of the survey. Of these, 43 communities had zones which met proposed threshold criteria (minimum population and UDAG eligibility) for federal designation. Although the project represents the most complete survey of zone performance yet undertaken, the Sabre Foundation recognizes that the study will be rapidly outdated. Presently active zones are gaining new investments and jobs, and new enterprise zones have been activated at a rate averaging more than one a week. As a result, monitoring of enterprise zones on a continuing basis will be necessary for an accurate reflection of zone progress.

A. Summary of State Activity

Enterprise zone activity was found to be taking place among three categories of states:

- states with operational enterprise zones;
- states with recently enacted enterprise zone legislation, but no active zones as yet; and
- states with enterprise zone bills under consideration by the legislature.

Each of the following categories is examined below.

Operational Zones

At the time of the survey, nine states (Connecticut, Florida, Illinois, Kansas, Kentucky, Louisiana, Maryland, Missouri and Ohio) had operational state enterprise zones. The number of communities with operational zones ranged in number from two in Kentucky to 78 in Louisiana.[1] The first state with operational enterprise zones was Florida. Initially the state established a series of emergency economic development incentives in the wake of the 1980 Liberty City riots that were intended to revitalize its most depressed areas. The policy was later redefined as an enterprise zone initiative, and has since been applied in 46 communities. The most recent state with operational zones is Missouri, where three zones have been operational since September of 1983.

A total of 182 localities within the nine states have active zones (in Louisiana and Florida, local jurisdictions often contain several enterprise zones).[2] Of these municipalities, approximately 20 percent have had more than 18 months experience; 20 percent had between 12 and 18 months; and 60 percent have begun operations within the past year. For zones that could presently meet two basic proposed federal enterprise zone eligibility tests (UDAG eligibility and resident populations of 4000 or more for urban areas, and 1000 or more for rural), there appears to be a split in an approximately 1:1 urban/rural ratio. (For the purposes of the survey, enterprise zones in communities with less than 50,000 population outside of Standard Metropolitan Statistical Areas were considered to be rural zones.) Averaging all urban and rural areas for which information was available, the typical zone has been in operation 8.7 months.

States also varied in the nature of their zone designation processes. Six states established competitive designation processes, requiring applicant municipalities to demonstrate need for state participation and plans for local commitments to address problems within the zones. Other states, such as Louisiana, offer zone status to any area meeting threshold criteria of poverty and/or dependency upon public assistance. Kansas' eligibility criteria require only that a community qualify for the existing Urban Development Action Grant program; it has created 27 zones.[3]

Enacted Legislation

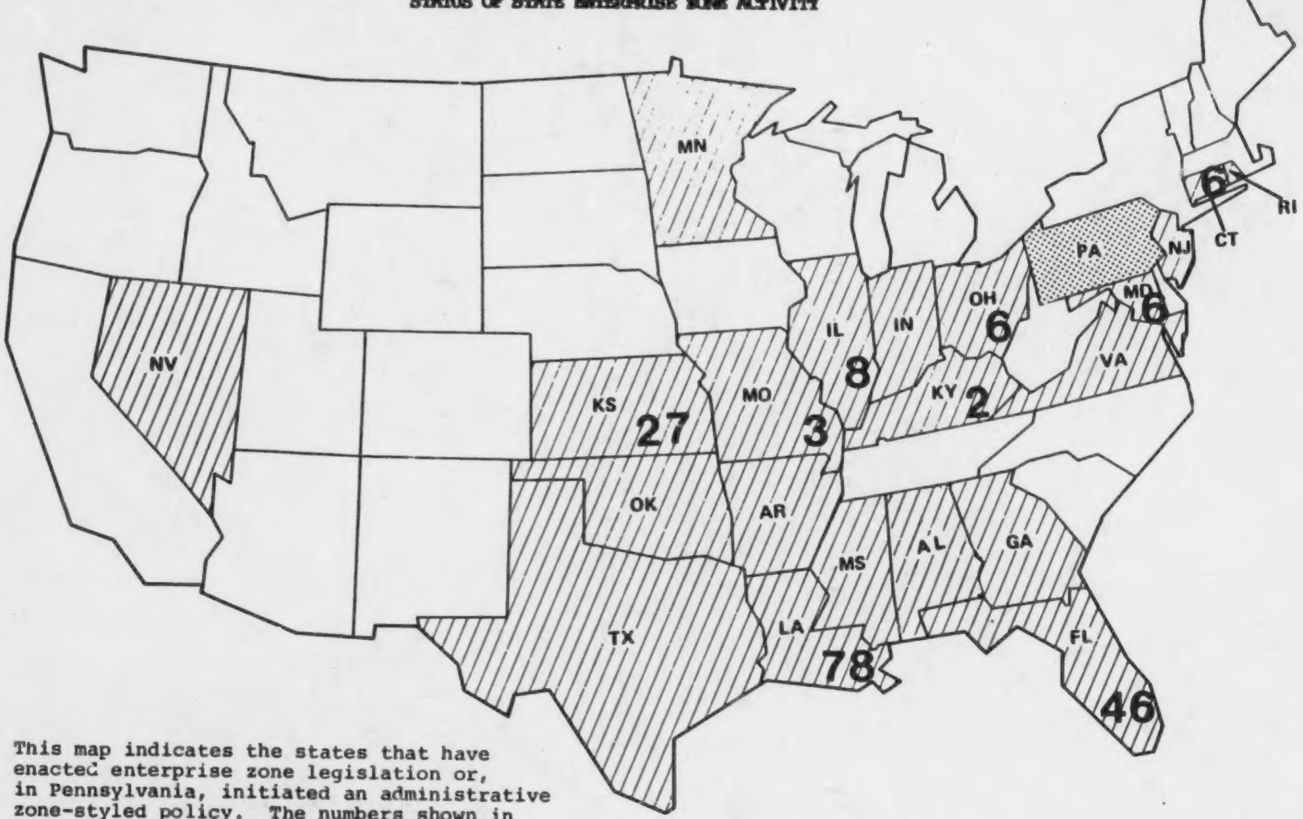
Ten states (Arkansas, Indiana, Minnesota, Mississippi, Nevada, New Jersey, Oklahoma, Rhode Island, Texas, and Virginia) have enacted zone legislation but have not yet activated their enterprise zones. Three other states—Pennsylvania, Alabama, and Georgia—have limited authority to establish zone-styled incentive areas. Pennsylvania has passed no formal zone legislation but has designated Enterprise Development Areas in seven communities where existing programs for stimulating development have been targeted. Alabama and Georgia have authorized zones in Birmingham and Atlanta respectively; local preparations for the zone in Atlanta have recently begun.

Pending Legislation

Another 11 states either have had zone legislation pending during the past year or currently have zone bills awaiting legislative action. These states include California, Colorado, Hawaii, Massachusetts, Michigan, New Hampshire, New York, Oregon, Tennessee, Washington and Wisconsin. Favorable votes on zone legislation is considered likely in the near future in Massachusetts and Michigan. California's Assembly and Senate earlier this year approved a pair of zone measures, which await resolution of technical details between the governor and lawmakers. Representatives of several other states, notably New York, report that final action on their zone proposals would probably come soon after passage of a federal bill.

State governments with enterprise zone legislation tended to be strongly Democratic. Of the states with enacted legislation, 62 percent had Democratic control of the governorship and both houses, 33 percent had split

STATUS OF STATE ENTERPRISE ZONE ACTIVITY


MN
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FL
78
46

This map indicates the states that have enacted enterprise zone legislation or, in Pennsylvania, initiated an administrative zone-styled policy. The numbers shown in nine states with operational enterprise zones indicate how many communities have enterprise zones.

partisan control of the governorship and the legislature, and 5 percent had Republican control of the governorship and both houses at time of enactment. State officials contacted in the survey reported in several cases that the prospect of federal legislation had played a substantial role in inducing state governments to undertake enterprise zone programs. However, they emphasized in most cases that the state programs were designed to "stand alone" in the event that federal enterprise zone designations were not forthcoming.

B. Business Start-ups/Expansions/Renovations

The survey identified 160 startups (46 percent of total zone projects) by individual enterprises in the operational enterprise zones since their activation. Examples of the new enterprises range from large high-technology manufacturers of electronics and sonar equipment to small lumber yards and printing shops. Although startup firms have been most evident in the Connecticut enterprise zones, the largest example of a startup to date is under way in New Orleans, where SFE Technologies is building a 700-employee facility. Business startups occurred most commonly in the retail sector, followed by manufacturing and service industries. This pattern contrasts with that for business expansions (described below), where the manufacturing sector has responded the most strongly.

The actual extent of new entrepreneurial activity may be somewhat greater than detected by the survey of zone officials. States such as Kansas and Florida have made attempts to lighten paperwork requirements on zone-based companies, making it likely that the birth of small, new enterprises in some instances has not been recorded by officials monitoring the enterprise zones.

One factor in business startups appeared to be the presence of "incubator" facilities. To serve Baltimore and Toledo's enterprise zones, Control Data Corporation has established business incubator facilities called Business and Technology Centers; a third is being planned in Louisville, Kentucky. These centers provide small, new firms with low cost office and manufacturing space, in-house data and word processing, accounting, business counseling and janitorial services. In Baltimore's enterprise zone, 45 of the 46 business startups (often one- or two-person firms) were in the Business and Technology Center.

Expansions

A total of 26 percent of enterprise zone business projects represented expansions of zone-based firms. This number is particularly significant in light of the poor investment climate of most zones prior to their designations. In some cases, firms reported that enterprise zones were reducing costs that had previously kept them from hiring new workers or purchasing equipment. In others, zone-based companies discarded planned moves to adjacent communities as a direct result of zone incentives, and proceeded to expand their workforces within the zone. Business expansions were observed primarily in the manufacturing sector in urban zones, followed closely by retail stores.

Renovations

Renovations of businesses as well as residential properties constituted

Table I-A

BUSINESS STARTUP/EXPANSIONS/RETENTIONS

A. POTENTIAL FEDERAL ENTERPRISE ZONES (based on present zone population and on UDAG eligibility)

Zone	NUMBER OF PROJECTS			Capital Committed ($000s)
	Startups	Expansions	Renovations	
Connecticut				
Bridgeport	13	5	0	$ 2800
New Britain	3	2	3	12180
New Haven	6	3	0	n/a
Norwalk	10	8	47	18000
STATE SUBTOTAL:	32	18	50	32980
Florida				
Dade County	n/a	n/a	n/a	n/a
Ft. Lauderdale	3	0	0	4975
Lakeland	1	3	0	n/a
Pensacola	7	1	0	3500
Tampa	9	1	0	7000
STATE SUBTOTAL:	20	5	0	15475
Illinois				
Chicago (1)	0	0	1	20000
Chicago (2)	0	0	0	0
Decatur	5	1	26	2705
East St. Louis	1	0	1	465
Joliet	1	0	0	500
Peoria	0	1	0	600
Rockford	1	1	0	150
STATE SUBTOTAL:	8	3	28	24420

Table I-A (continued)

Zone	NUMBER OF PROJECTS			Capital Committed ($000s)
	Startups	Expansions	Renovations	
Kansas				
Abeline	0	1	0	840
Andover	0	0	0	0
Atchison	0	0	0	0
Baxter Springs	0	0	0	0
Chanute	0	4	0	8750
Cherryvale	0	0	0	0
Hutchinson	0	0	0	0
Independence	0	0	0	0
Iola	0	0	0	0
Kansas City	6	2	0	16000
Leavenworth	3	0	0	0
McPherson	1	2	0	3500
Newton	1	0	0	n/a
Pittsburg	1	0	0	3500
Salina	0	0	0	0
Topeka	4	3	0	141575
Wichita	0	0	0	0
Winfield	0	1	0	6500
STATE SUBTOTAL:	16	13	0	180,665
Kentucky				
Hickman	1	3	0	n/a
Louisville	4	1	0	3305
STATE SUBTOTAL:	5	4	0	3305
Maryland				
Salisbury	0	1	0	n/a
STATE SUBTOTAL:	0	1	0	n/a

Table I-A (continued)

Zone	NUMBER OF PROJECTS			Capital Committed ($000s)
	Startups	Expansions	Renovations	
Missouri				
Macon	1	0	0	8000
St. Louis	0	1	0	n/a
Washington County	0	0	0	0
STATE SUBTOTAL:	1	1	0	8000
Ohio				
Canton	0	0	0	0
Dayton				
(1)	2	1	0	1550
(2)	0	0	0	0
Lima	0	3	0	1500
Newton Falls	0	0	0	0
Toledo	1	5	0	3200
STATE SUBTOTAL:	3	9	0	6250
CUMULATIVE TOTAL:	85	54	78	$271,095

Table I-B

BUSINESS STARTUPS/EXPANSIONS/RENOVATIONS

B. OTHER STATE ENTERPRISE ZONES (not presently meeting federal population or UDAG eligibility requirements)

Zone	NUMBER OF PROJECTS			Capital Committed ($000s)
	Startups	Expansions	Renovations	
Connecticut				
Hartford	5	4	1	$ 790
New London	2	4	15	24722
STATE SUBTOTAL:	7	8	16	25512
Florida				
Clearwater	1	0	0	9500
Dade County	n/a	n/a	n/a	n/a
Daytona Beach	1	2	0	n/a
Dundee	0	1	0	185
Santa Rosa County	1	1	0	n/a
STATE SUBTOTAL:	3	4	0	9685
Illinois				
Canton	0	0	0	0
Kansas				
Bonner Springs	0	0	0	0
Coffeyville	0	0	0	0
Galena	0	0	0	0
Hillsboro	4	0	0	n/a
Junction City	1	1	0	1000
Manhattan	0	0	0	0
Neodesha	0	0	0	0
Norton	0	0	0	0
Ottawa	0	0	0	0
STATE SUBTOTAL:	5	1	0	1000

Table I-B (continued)

Zone	NUMBER OF PROJECTS Startups	Expansions	Renovations	Capital Committed ($000s)
Louisiana* (fragmentary state data)				
STATE SUBTOTAL:	13	20	2	145,955
Maryland				
Baltimore	46	0	0	n/a
Calvert County	0	0	0	0
Capitol Heights	0	2	1	500
Cumberland	1	2	0	n/a
Hagerstown	0	0	0	0
STATE SUBTOTAL:	47	4	1	500
CUMULATIVE TOTAL:	75	37	19	$182,652

* Data available on aggregated, state-wide basis only.

Table I-C

OVERALL BUSINESS STARTUPS/EXPANSIONS/RETENTIONS

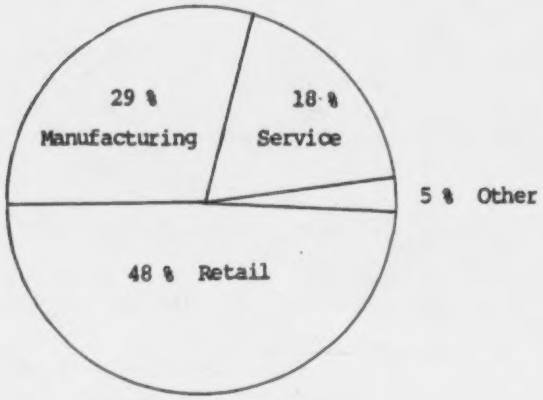
(combined total for potential federal enterprise zones and presently ineligible zones)

Zone	NUMBER OF PROJECTS Startups	Expansions	Renovations	Capital Committed ($000s)
Potential federal zones	85	54	78	$271,095
Other enterprise zones	75	37	19	$182,652
COMBINED TOTALS:	160	91	97	$453,747

Table II

SECTOR ANALYSIS OF ENTERPRISE ZONE PROJECTS

The following indicates the composition of new enterprise zone business activity by sector: manufacturing, service, retail, and other (warehousing, office development, etc.)



another 28 percent of enterprise zone projects. The renovations appeared to be concentrated in those states and communities offering significant property tax abatements. Nearly 70 percent of all reported renovations have occurred in the Connecticut zones, where increased assessments on property improvements are fully abated for two years, and then phased gradually back in.

Perhaps the most striking example of zone stimulus to renovation, however, has occurred in Chicago. At least one large firm, Spiegel Catalogue, will undergo a $20,000,000 renovation after having considered leaving the area. Corporate executives reported that zone incentives for the renovation were among the three primary reasons for remaining in the Chicago zone. The action will save 2,000 full-time and part-time jobs in the zone.

Renovations have been characteristic of firms in urban rather than rural zones. The sectors most active in renovation projects include residential developers and retail stores.

Overall, a basic difference was noted in the mix of projects undertaken in urban relative to rural enterprise zones. In rural areas, manufacturing projects proportionally were more common than in urban zones. This reflects a tendency on the part of rural communities to link their zones to recently developed industrial parks; urban communities in contrast applied zones as comprehensive redevelopment tools involving aging central business districts, residential areas, and industrial areas. Some of the rural zones have no resident population and were not intended to address problems of blighted housing or run-down commercial districts.

C. Job Generation

Operational state enterprise zones have had a significant impact on employment opportunities in distressed area. Cumulatively, the zones are responsible for 20,271 jobs as set forth in the categories below.

Since the average age of enterprise zones is less than a year, and many businesses make investment or expansion decisions slowly, the actual number of jobs attributable to the zone businesses is expected to go much higher.

Jobs Created

A created job was defined in the survey as a new position filled since activation of the zone, or a new opening presently being filled. To date, state enterprise zones have generated 4,601 jobs in this category. The most notable achievements in job creation were found in the states of Connecticut, Florida, and Louisiana. In contrast to the zone programs of other states, these states have had enterprise zones with the longest periods of zone activation (up to two years).

Jobs Saved

A saved job was defined as a position that would have been lost to the enterprise zone area had actions such as expansions or renovations not been undertaken by an enterprise zone firm. An additional 4,085 jobs, in the opinion of public officials, have been saved as a result of zone designation. Notable examples of such job retention were found in Norwalk, Connecticut; Chicago, Illinois; and Topeka, Kansas.

Jobs Planned

A planned job was defined as a position projected to be filled by a company within its first three years of zone operations. (In cases involving multibusiness facilities such as shopping centers or office parks, researchers accepted estimates by officials of full-capacity employment levels.) Officials reported that zones to date have generated 8,477 planned jobs. In states such as Ohio and Louisiana, businesses must "commit" to creating a stated number of new positions before qualifying for zone benefits.

Jobs "Pending"

A final category—identified not as a result of survey questions but from information volunteered by city officials—consisted of "pending" jobs. Companies with approximately 3,108 jobs were identified by officials as virtually certain of establishing operations in enterprise zones but as yet not formally committed to doing so. Examples in this category included communities where applications for Urban Development Action Grants are associated with the zone project and await approval. In one case, a city has negotiated commitments from companies that would cumulatively create more than 1,500 jobs. However, the agreements hinge on annexation of an industrial area, which is a matter now in litigation with a neighboring community.

Statistics on employment of disadvantaged individuals by zone-based companies are not yet readily available from many cities and states, but in some cases where data are available, the survey found high percentages of hiring of poor and long-term jobless workers. In Toledo, Ohio, a manufacturer of corrugated boxes—Owens-Illinois—hired virtually its entire new workforce from among a jobs bank listing of a poor neighborhood's unemployed residents. In Louisville a wood products manufacturer—Lanham Lumber—was assisted by a state jobs service office in screening several hundred applicants from among the roles of the unemployed to fill 55 new jobs. The survey found that the percentage of disadvantaged persons among new hires in state-designated zones ranged from 23.3 percent to 100 percent.

The mix of companies found in operational enterprise zones has also created job opportunities for skilled and professional workers. Among the recent enterprise zone ventures are a medical clinic in Capitol Heights, Maryland; and a science park in a poor neighborhood near Yale University in New Haven, Connecticut. In Chanute, Kansas, a satellite communications dish manufacturer is preparing to hire up to 200 professional, skilled and unskilled employees. An office complex being developed in New London, Connecticut, with a potential for 2,000 hires, and a number of technical services firms in zones elsewhere may indicate a trend away from the migration of professional offices to the suburbs.

State incentives vary in the relative emphasis placed upon hiring of disadvantaged residents. In some states, such as Missouri and Kentucky, the most powerful employment tax benefits are offered to firms that hire zone residents (or disadvantaged workers living outside the zone). In other states, such as Connecticut and Louisiana, zone residents and disadvantaged workers enjoy no special advantage; businesses are encouraged to hire workers from anywhere in the community. At least four states—Connecticut, Missouri, New Jersey and Ohio—have incorporated specific job training provisions into their zone policies.

Table III-A

ENTERPRISE ZONE EMPLOYMENT IMPACTS

A. POTENTIAL FEDERAL ENTERPRISE ZONES (based on present zone population and on UDAG eligibility)

Zone	Jobs Created	Jobs Planned	Jobs Saved
Connecticut			
Bridgeport	86	0	0
New Britain	285	n/a	10
New Haven	n/a	n/a	n/a
Norwalk	169	181	800
STATE SUBTOTAL:	540	181	810
Florida			
Dade County	n/a	n/a	n/a
Ft. Lauderdale	73	0	0
Lakeland	20	1000	0
Pensacola	100	0	0
Tampa	1250	0	0
STATE SUBTOTAL:	1443	1000	0
Illinois			
Chicago (1)	0	0	2000
Chicago (2)	0	0	0
Decatur	86	0	0
East St. Louis	0	0	0
Joliet	30	0	0
Peoria	3	0	0
Rockford	16	5	0
STATE SUBTOTAL:	135	5	2000

Table III-A (continued)

Zone	Jobs Created	Jobs Planned	Jobs Saved
Kansas			
Abeline	60	30	0
Andover	0	0	0
Atchison	0	0	0
Baxter Springs	0	0	0
Chanute	0	400	0
Cherryvale	0	0	0
Hutchinson	0	0	0
Independence	0	0	0
Iola	0	0	0
Kansas City	230	0	0
Leavenworth	0	67	0
McPherson	0	135	0
Newton	70	300	0
Pittsburg	0	0	0
Salina	0	0	0
Topeka	15	1325	1250
Wichita	0	0	0
Winfield	27	48	0
STATE SUBTOTAL:	402	2305	1250
Kentucky			
Hickman	8	0	0
Louisville	135	76	0
STATE SUBTOTAL:	143	76	0
Maryland			
Salisbury	57	0	0
STATE SUBTOTAL:	57	0	0

Table III-A (continued)

Zone	Jobs Created	Jobs Planned	Jobs Saved
Missouri			
Macon	0	300	0
St. Louis	55	0	0
Washington County	0	0	0
STATE SUBTOTAL:	55	300	0
Ohio			
Canton	0	0	0
Dayton			
(1)	0	100	0
(2)	0	0	0
Lima	80	30	0
Newton Falls	0	0	0
Toledo	21	0	0
STATE SUBTOTAL:	101	130	0
CUMULATIVE TOTAL:	2876	3997	4 060

Table III-B

ENTERPRISE ZONE EMPLOYMENT IMPACTS

B. OTHER STATE ENTERPRISE ZONES (not presently meeting federal population or UDAG eligibility requirements)

Zone	Jobs Created	Jobs Planned	Jobs Saved
Connecticut			
Hartford	31	61	0
New London	0	2858	0
STATE SUBTOTAL:	31	2919	0
Florida			
Clearwater	0	150	0
Dade County	n/a	n/a	n/a
Daytona Beach	92	20	0
Dundee	8	0	0
Santa Rosa County	80	0	0
STATE SUBTOTAL:	180	170	0
Kansas			
Bonner Springs	0	0	0
Coffeyville	0	0	0
Galena	0	0	0
Hillsboro	10	0	0
Junction City	0	75	25
Manhattan	0	0	0
Neodesha	0	0	0
Norton	0	0	0
Ottawa	0	0	0
STATE SUBTOTAL:	10	75	25

Table III-B (continued)

Zone	Jobs Created	Jobs Planned	Jobs Saved
Louisiana* (fragmentary state data)			
STATE SUBTOTAL:	1234	1234	n/a
Maryland			
Baltimore	210	50	0
Calvert County	0	0	0
Capitol Heights	0	20	0
Cumberland	60	12	0
Hagerstown	0	0	0
STATE SUBTOTAL:	270	82	0
CUMULATIVE TOTAL:	1725	4480	25

* All Louisiana data is based on tablulations provided by the Louisiana Department of Commerce and Industry. Since a breakdown of created and planned jobs is unavailable, the total number has been arbitrarily attributed to each category equally.

Table III-C

OVERALL ENTERPRISE ZONE EMPLOYMENT IMPACTS

(combined total for potential federal enterprise zones
and presently ineligible zones)

Zone	Jobs Created	Jobs Planned	Jobs Saved	Jobs Pending**
Potential federal zones	2,876	3,997	4,060	1,265
Other enterprise zones	1,725	4,480	25	1,843
COMBINED TOTALS:	4,601	8,477	4,085	3,108

** "Pending jobs" is a category developed in response to information volunteered by officials during the course of the study. It represents projected jobs for companies whose applications have yet to be formally approved, but which zone officials said they expect soon will be.

D. Neighborhood Improvements/Resident Equity

Three states—Kentucky, Illinois and Texas—have incorporated provisions in their legislation which create opportunities for zone residents to benefit from appreciating property values. In each case, state and local governments are directed or encouraged to transfer their unused properties within the zones to authorized development associations operated by residents. This emphasis on a neighborhood stake in zone development is characteristic of more recently passed zone acts, in part because of concerns over displacement of low-income tenants as property values rise.

Groups in Louisville, Kentucky, for example, are now organizing neighborhood "enterprise associations" that will distribute to each zone household revenues earned from leasing out now-idle properties. When fully operational, such organizations are expected to provide cash incentives for zone residents who contribute to the upgrading of their neighborhoods through crime watches, cleanup/fixup projects, anti-litter campaigns and other improvement efforts. Eventually, the associations may not only recruit new businesses but will perform a variety of services, from day care to public transportation to solid waste removal. Illinois' enterprise zone statute encourages municipalities to transfer public service delivery responsibilities to designated neighborhood organizations in enterprise zones. In communities such as Norwalk, Connecticut, local governments have also moved without state prompting to involve neighborhood groups in such activities as block watches and fixup programs.

"Neighborhood Assistance Programs"—offering tax incentives to companies that contribute resources to community self-help groups—are also available in several states. In Florida, for example, the enterprise zone enabling act has established a tax credit for any corporation or individual donating funds or personnel to improvement projects in distressed areas. This has resulted so far in more than $6 million in private commitments to build or refurbish public facilities in Dade County.

E. Fiscal Impacts

The survey findings suggest that the Treasury Department substantially overestimated revenue loss from enactment of the prospective federal enterprise zone legislation. In developing its estimates, Treasury made a number of assumptions about the characteristics of a typical enterprise zone. These assumptions were—of necessity—conjectures, as no zones existed at the time Treasury first did its work. Experience to date suggests that these guesses were unduly pessimistic. The following is a list of several key Treasury assumptions together with discussions of survey results.

Treasury assumed that:

- **all activity in the zones would have occurred elsewhere anyway; in short, the zone incentives would generate no new economic activity.** The survey asked local officials to estimate the proportion of new activity that would have failed to occur in the enterprise zones without zone incentives. On average, officials believed that zone incentives were a major factor for 50 percent of the new activity within the zones.[4] Officials appeared to count in their estimates only firms about which they had immediate personal knowledge. Consequently, the actual proportion of new zone activity which was dependent on zone incentives could be higher than their estimates indicated. Several officials cited projects that they felt would not have happened anywhere without the zone incentives, or that would have occurred elsewhere only on a substantially reduced scale. As an example, Custom Labels, Inc. of Shreveport, Louisiana was unable to raise the full $400,000 in financing needed for a new plant prior to activation of the enterprise zone. With the incentives in effect, the company's cash flow improved by more than $19,000 annually, enabling it to afford a larger facility. The expanded production facilities allowed the company to hire 18 new workers, virtually all of whom were previously unemployed.

- **all the companies in the zones would have taxable income against which to claim tax credits in the year the credits were incurred.**
  The survey found that business startups represent 46 percent of all new activity in the zones.[5] With the exception of one Chicago zone, the most active zones to date have each spawned a significant number of startups. In general, such new business enterprises operate at a loss for three to five years before showing a profit. Accordingly, tax credits going to such firms during this period would generate no revenue losses to the Treasury. (In addition, many startup firms also go out of business within a few years of formation, foregoing later carryovers of their initial business losses that might subsequent affect Treasury receipts.)

- **there is no pay-back to the government from an otherwise-unemployed person getting a job.**
  The Office of Management and Budget has estimated that costs range from $10,000 to $15,000 on average to support an unemployed or disadvantaged person for a full year.[6] Because a typical unemployed worker in a central city is rehired after six months of joblessness, the actual average cost to the public per unemployed worker comes to about $6,000. (This estimate is probably low for inner city areas, where structural unemployment often leads to long periods of joblessness relative to elsewhere in central cities.)

  Officials in the five cities with information on hiring practices of zone-based firms stated that disadvantaged workers accounted for 23 percent to 100 percent of total hires to date by companies examined.[7] Few localities, however, kept adequate records of the prior status of workers hired in their zones. On the basis of this limited subsample of five zones, project researchers estimated that 30 percent of the jobs in state zones do go to the previously unemployed or to individuals dependent upon means-test transfer payments. An extrapolation of this percentage to the zones' employment impacts to date (4,601 jobs created, 8,477 jobs planned, and 3,108 jobs pending) yields employment for a projected 6,081 unemployed or disadvantaged workers. Multiplying these workers by the average cost savings to the public of employing each worker, state enterprise zones so far can take credit for overall savings of $36,486,000. Assuming that the federal government bears one third of the cost of support services, its share of the savings comes to $12,711,000.

  Another important fiscal benefit to the federal government consists of the taxable income generated by the new zone workers. Previously unemployed workers finding work in the state enterprise zones at a hypothetical annual salary of $11,000 generate a cumulative $10,033,650. annually for the Treasury, given an effective tax rate of 15 percent.

II. PROFILES OF OPERATIONAL ENTERPRISE ZONES

A. Urban Zones

The following enterprise zones provide an illustration of the progress of the mechanism in urban areas:

NORWALK, CONNECTICUT — Guided by a broad coalition of local advocates, Norwalk had the first (activated in December, 1982) operational zone among Connecticut's competitively designated enterprise zones. It has received national publicity as the zone with the most to show for its first months of existence. Although some communities may have attracted more new jobs, Norwalk's zone has already profoundly changed the landscape of a decaying section located near the waterfront. In recent months, Norwalk has transformed large portions of a commercial strip from conditions of decay to areas of vitality and reinvestment.[8]

The city's redevelopment authority has certified 47 rehabilitation projects, eight structural expansions and 10 new buildings. Projects range from industrial firms to a new drama company to storefront rehabilitations to new housing construction. The Norwalk zone halted a departure-in-progress by a toy manufacturer with 70 employees; this company has recently announced plans to hire 30 additional employees in coming months. In the case of an apparel manufacturer employing 800, the enterprise zone was also cited as a reason for its reconsideration of plans to move. A number of restaurants have recently opened their doors in the zone, and dozens of other retail establishments have renovated their premises and added new employees as a result of enterprise zone and historical preservation tax incentives. So far 169 new jobs have been filled in the Norwalk zone, and projects already committed will eventually account for about 350 new hires. Norwalk officials believe that the enterprise zone, in concert with established business assistance programs, has played a decisive role in attracting $18 million in private capital to the zone in just under a year of operation.

LOUISVILLE, KENTUCKY — Louisville has contended with a crippling exodus of industry during the past decade. International Harvester had shut down most of its huge facility in the city's industrial core; several other corporations either had gone out of business or moved out. A widening swath of disinvestment cut through the heart of Louisville from the riverfront to the north to the airport on the south. Unemployment prevailed in residential areas scattered around the edges of the Louisville's central business district.

Since receiving state designation as an enterprise zone in July 1983, employer interest in the industrial areas has shown modest signs of revival. In only four months, four companies have started up new operations and 135 new jobs can be directly attributed to the zone incentives. City officials indicated that they have been pleased with the responses of business investment and hiring plans to the enterprise zone incentives.

"It changes the whole picture," said Economic Development Director Brian de St. Croix. "We are now expecting to turn the entire industrial area around 180 degrees. We are constantly getting inquiries from new companies." He felt the zone has made a difference for companies that were considering leaving, as well as for those that needed to expand to remain competitive but could not.

Louisville officials reported that enterprise zones have attracted support from Chamber of Commerce officials, business leaders and public utility executives. Representatives of neighborhood groups have welcomed Kentucky's Neighborhood Enterprise Associations (NEAs), which will give residents a share of income from zone property development. Economic development officials are preparing to turn over unused state and municipal properties to such neighborhood groups, and plan to help the NEAs recruit new firms who will locate on once abandoned parcels of inner city land. Rising property values in the enterprise zones will thus accrue to the benefit of disadvantaged residents.

B. Rural Zones

The following are examples of operational enterprise zones in a rural setting (i.e., in communities outside of Standard Metropolitan Statistical Areas):

MACON, MISSOURI — Located in rural northern Missouri, Macon (pop. 5000) has traditionally had a farming-based economy. Since its designation as an enterprise zone in September of 1983, however, Macon has entered into negotiations with a number of business prospects. In recent weeks a large auto parts manufacturer has committed to an $8 million facility that will generate 300 new jobs. Jack Briggs, who manages Macon's zone, said the new company may significantly reduce the city's unemployment problems.

According to Briggs, the zone incentives—available in only three other Missouri communities thus far—were one of several factors inducing the auto parts maker to move to Macon. In addition, Macon is now negotiating with two other companies that together would account for another $5 to $6 million in new investment and 200 jobs. If these businesses do locate in Macon, Briggs reported, the zone is likely to be a key factor in those decisions.

CHANUTE, KANSAS — Over the years, Southeast Kansas has experienced a number of boom and bust cycles. The same oil boom that transformed Oklahoma and Texas affected Chanute earlier in this century. The area was also among the hardest hit during the Dust Bowl. In the 1970s, Chanute's industrial park filled with businesses servicing renewed exploration for oil and natural gas. As that surge of activity waned, so did the economy of Chanute.

Since the city (population 10,000) received designation as an enterprise zone in April of 1983, four companies in the zone have announced projects that will expand Chanute's job market by about 400 jobs and will account for nearly $20 million in new investment. Besides an auto dealership and an expansion by a light manufacturer, a large air tank maker has committed about $8 million to an addition of existing facilities that will generate 160 new hires. Another local firm, Birdview Satellite Communications Co. anticipates being able to add around 200 jobs and to invest $10 million in enterprise zone production facilities.

Table IV

PROFILE OF A TYPICAL ENTERPRISE ZONE*

General

Area: 5.3 square miles
Months of Operational Zone: 8.7
Zone Residents Seeking Work: 2,026

Characteristics Since Activation

Number of Startup Businesses: 1.9
Number of Business Expansions: 1.1
Number of Business Renovations: 1.1
Number of New Jobs: 54
Number of Planned Jobs: 99
Number of Jobs Saved: 48
Number of New Jobs For Disadvantaged: 26
Amount of New Investment: $6,132,000

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* The above statistics were derived by totaling all data for all zones, rural and urban, and dividing by the total number of zones reporting information for each category. Those zones not reporting data did not figure in the averages. The averages did not take into account all 182 zones primarily because only nine cities out of 46 were surveyed in Florida (where state figures will not be available for several months) and because data was available from only 21 out of 78 zone communities in Louisiana. The state government here administers the enterprise zone policy, and the cities involved have almost no responsibility for or information about their zones' performance.

Data was obtained from 86 zones reporting some form of business activity—startups, expansions or renovations. However, only five zones had available data on the number of disadvantaged workers hired. For this reason Sabre has more confidence in the statistics on job generation than in its data on hiring of disadvantaged workers. The average for new investment was calculated on the basis of 74 zones. Although activity for 86 zones was reported, in some cases the amount of investment was unknown by the officials interviewed.

III. CONCLUSIONS

The survey results give, apparently for the first time, evidence to address questions around which the enterprise zone debate has revolved. Among the most important questions are:

Do enterprise zones in fact lead to the creation of new jobs?

In the state and local experience the answer is clearly yes. The job creation is particularly dramatic in light of both the short time that most of the zones have been in operation and the weakness—in comparison to the federal program—of the state inducements. It is particularly significant that the long term unemployed appear to have received a large proportion of the positions.

In almost equal measure to generating gains in employment, state enterprise zones have been successful in maintaining employment. State and local officials cited a number of cases in which businesses planning to move move out of a depressed community had a change of heart once the enterprise zone was declared. In many cases expansions followed. Typically, the companies involved were among the largest employers in their areas.

While the job creation and preservation numbers to date may appear small relative to the U.S. workforce as a whole, they have frequently proven significant in the sponsoring communities. In Norwalk, Connecticut, for example, the saving or creation of almost 1,000 jobs in the past year represents a substantial share of the 5,000 jobs that were in the zone at the time of designation.

In zones showing particularly strong job generation results, the state and local incentive packages in many cases go beyond tax relief to remove other obstacles to business development. Streamlining regulatory procedures, reducing crime, and stimulating neighborhood cleanup/fixup efforts appeared particularly effective in improving the climate for jobs creation.

What kinds of business activity result?

Some states and cities indicated that they initially felt enterprise zones would help them primarily to persuade companies to relocate from existing sites in other jurisdictions to their own. The survey found, however, very few relocations. This may change with time, but for the moment the principal gains in employment have come from expansion of established firms and startups of small businesses. The importance of startups and expansions is of particular interest because so many of these areas were dying as centers of business enterprise before the zones were declared.

Given the debate on the decline of American manufacturing and the flight of manufacturing facilities overseas, it is also worth noting that enterprise zones have had a disproportionate impact on manufacturing as a sector. In the economy as a whole, businesses engaged in manufacturing account for less than 21 percent of business enterprise. In the enterprise zones, 29 percent of the new projects are occurring in the manufacturing sector.

Do enterprise zones work to the detriment of businesses near but not in the zone?

This issue has been a continuing concern to Congress. It also loomed large in the debates of each of the state legislatures that enacted a program. The survey, however, encountered only one report of significant border effects. That came from an Ohio official who asserted that a number of businesses had been established just outside one zone, in part to service companies operating in the zone.

How reliable are Treasury's estimates of revenue loss?

The survey suggests that there are significant problems with the assumptions that underpin the Treasury estimates. State and local programs—in terms of tax relief, approximately 20 percent as powerful as the proposed federal package—to date can claim to have generated or saved 20,271 jobs. Although designated in areas of lagging business activity, state zones so far have been the sites of 160 start-up firms. A large share of the jobs created in the zones went to unemployed workers and residents, including the long term unemployed, in those cities tracking the hiring practices of firms. Treasury assumed, however, that the zones would merely relocate business activity rather than stimulate new startups and expansions, and overlooked the fiscal impact of self-sufficiency for newly-hired individuals who previously required unemployment compensation or transfer payments for support.

Operational state enterprise zones have given a promising start to a new economic development initiative. In establishing a "climate of opportunity" for businesses and residents alike, local and state officials have pointed the way to more effective national approaches to resolving pressing problems.

APPENDICES

A. ACKNOWLEDGEMENTS

The Sabre Foundation wishes to thank the following individuals for their assistance in providing information for the survey:

CONNECTICUT

Elizabeth Rodriguez, Bridgeport; Carol Johnson, Hartford; Jim Mahoney, New Britain; Scott Cleveland, New Haven; Charlotte Schroeder, New London; Gregg Dunn, Norwalk.

FLORIDA

Joseph R. McFate Jr., Clearwater; Jeff Sandinski, Daytona Beach; Michael Herr, Dundee; G.R. Montgomery, Fort Lauderdale; Jim Verplanck, Lakeland; Randy Wilkerson, Pensacola; Richard David, Tampa; Thomas W. Suther Jr., Santa Rosa County.

ILLINOIS

David Dorgan, Canton; Richard Mozier, Chicago; Charles Cherches, Decatur; Kevin Ellis, East St. Louis; Michael Zelinzki, Joliet; Rodney Haynes, Peoria; Bruce Kepner, Rockford.

KANSAS

Don Center, Abeline; Pat Stuenkel, Andover; Pat Walker, Atchison; Barbara Spradling, Baxter Springs; Steven Lewis, Bonner Springs; George McCune, Chanute; Cliff Lumley, Cherryvale; Ron Stevenson, Coffeyville; Carol Wiebe, Hillsboro; Jon Daveline, Hutchinson; Fred Gress, Independence; Helen Townsend, Iola; John Majerus, Junction City; Bill Martin, Leavenworth; Michael Hauser, Manhattan; Fred Diehl, McPherson; Richard Chamberlin, Newton; Carol Wertenberger, Norton; Gordon House, Pittsburg; Christopher Imming, Topeka; Bill Womack, Wichita; Frank Lann, Winfield.

KENTUCKY

Thomas Cooley, Hickman; Brian de St. Croix, Louisville.

LOUISIANA

Robert Paul Adams, Louisiana Department of Commerce and Industry.

MARYLAND

David Paulson, Baltimore; R. Talmage Reeves, Calvert County; Ralph Lange, Capitol Heights; Greg Jenkins, Cumberland; William Wellman, Hagerstown; Patrick Fennell, Salisbury.

MISSOURI

Jack Briggs, Macon; Jan Hernon, St. Louis; Robert Letcher, Washington County.

OHIO

Kim Couris, Canton; Tony Char, Dayton; Bill Bassett, Lima; Allan Knapp, Newton Falls; Michael Duckworth, Toledo.

B. COMPANIES IN ENTERPRISE ZONES

The following businesses are representative examples of companies that have started up or expanded in the enterprise zone cities surveyed during this study:

CONNECTICUT

Kids 'R Us (Bridgeport), Spectrum Graphics (Hartford), Finast Super Center (New Britain), Science Park Development Corporation (New Haven), Schip Development Corporation (New London), Hoffrel Instruments (Norwalk).

FLORIDA

Cobb-Cole (Daytona Beach), Davidsons of Dundee, Inc. (Dundee), Days Inns of America (Ft. Lauderdale), Goodman Corp. (Lakeland), Coastal Training Institute (Pensacola), Wines of St. Augustine (Tampa), Etma Steel (Santa Rosa County).

ILLINOIS

Spiegel Co. (Chicago), Illinois Bell Telephone (Decatur), 800 Health Spa (East St. Louis), Michigan Wire Co. (Joliet), Image Technology (Rockford).

KANSAS

Birdview Satellite Communications (Chanute), Prudent Travel Agency (Hillsboro), Didion & Sons Manufacturing (Junction City), Kaw Valley Inc. (Leavenworth), Medtech (McPherson), Midcontinent Cabinetry (Newton), Binney & Smith Co. (Winfield).

KENTUCKY

C & D Fleeting Co. (Hickman), Lanham Lumber (Louisville).

LOUISIANA

Cypress Communications Corp. (Alexandria), Chips of Louisiana, Inc. (Bernice), Ultra Lift Corporation (Bogalosa), Custom Labels Inc. (Bossier City), Trans Union Development, Inc. (Farmerville), Shepherd Oil Inc. (Jennings), Reynolds Metal Co. (Lake Charles), Martco (Lemoyen), James Machine Works, Inc. (Monroe), Exchange Bank & Trust (Natchitoches), W.E. Parks Lum,ber Co. (Newellton), Ivanhoe Oxygen Co. (New Iberia), SFE Technologies (New Orleans), Joe Chenevert & Associates (Oakdale), Lou Anna Foods (Opelousas), Prudhomme Filtration Systems (Port Barre), Sheraton at Pierremont Plaza (Shreveport), Southern Industries Pallet Manufacturing (Turkey Creek), Maison Desante Nursing Home (Ville Platte), Bayliner Marine Corp. (Vivian), Louisiana Plastic Lens, Inc. (West Monroe).

MARYLAND

Gill Manufacturing (Baltimore), South Maryland Hospital Clinic (Capitol Heights), Brock Steel Co. (Cumberland), Occidental Chemical Corp. (Salisbury).

MISSOURI

Orcheln Company (Macon), Engineered Air Systems (St. Louis).

OHIO

Dayton X-Ray (Dayton), Owens-Illinois (Ohio).

C. FOOTNOTES

1. Both Louisiana and Florida employ qualification criteria that make it difficult to compare their zones with those of states in which zones are designated on a competitive basis. Zones in Louisiana are qualified by enumeration of districts according to distress factors indicating those falling in the bottom 25 percent. The 497 zones represent multiple districts in 45 cities and 33 parishes. The Louisiana zone policy is in every way a state initiative; the state negotiates directly with firms applying for the incentives. The communities involved have virtually no administrative responsibilities and were generally unable to provide researchers with meaningful information. Therefore, all data on Louisiana presented in this report summarizes the state's information. Since activity has only been reported in 21 communities, no data was obtained from the other localities and they did not figure in the study's statistics.

2. A system similar to Louisiana's was found in Florida, where 155 zones have been created in 46 communities. Here also, statistics were unavailable in most communities, and state data will not be available for several months. On the advice of state officials, Sabre selected a sampling of nine communities where zones have had an impact.

In Dade County, Florida, for example, a total of 21 individual districts have qualified for the enterprise zone incentives. Recent legislative proposals in Florida would considerably reduce the scattered nature of the state's enterprise zones. The proposed Florida legislation would create criteria correspond to federal criteria for designation of urban renewal areas, resulting in 155 discrete zone areas. The proposed bill would create a two-tier enterprise zone system until 1986. Currently designated zones would remain eligible for the present set of state enterprise zone incentives for this period. In 1986, however, current legislation would expire, and many of the zones would go out of existence. In their place, 20 large enterprise zones would be created in the meanwhile. These would be chosen closely along the criteria proposed by the pending federal enterprise zone legislation (e.g., high unemployment, pervasive low-income population, or population loss). The proposed Florida legislation would also greatly expand business incentives, particularly to small and medium-sized businesses, which are the primary generators of new jobs. Moreover, each municipality would be required to come up with its own package of incentives. Taken together, the incentives are anticipated to foster substantially greater business interest and activity in the zones.

3. When Kansas passed its initial enterprise zone legislation in 1982, it made no limits on the size of the zones. As a consequence many of the early applicants designated the entire area within the corporate city limits. This was changed in 1983 legislation, which limits the zone size to 25 percent of

the city's area. Kansas has no requirement that the zone must contain population; therefore, many zones include only the area of industrial parks. Unlike most states, Kansas makes no requirements for demonstrating economic distress in their zones, other than establishing that they lie within a UDAG-eligible area.

4. The survey did not attempt to inquire into the motivations of the businesses themselves, but relied upon the statements of local officials familiar the companies.

5. This percentage includes all zones surveyed, both those meeting the proposed federal population and UDAG eligibility standards and those not meeting the criteria.

6. Statement of David A. Stockman, Director, Office of Management and Budget before the House Ways & Means Committee, November 3, 1983, p. 20. The estimate reflects the value of cash and inkind benefits received by individuals in the "higher benefit" states. It does not reflect the administrative or overhead cost of the support programs. See also "Poverty Rates and the Incentive To Be Unemployed," Allison T. French, Wall Street Journal, August 23, 1983, page 32.

7. Because the sample was so limited, project researchers believe that further company-by-company research will be needed to establish more than an indicative figure.

Mr. Rangel. Thank you.

Representative, you are the only one on the panel that is an elected official. You have a constituency similar to mine. What is it in the legislation that you sponsored—you have 20 enterprise zones?

Mr. Hinojosa. No, sir. We have, I think it was, 75 enterprise zones. They were to be set up by the State.

Mr. Rangel. I have something here that Ms. Richmond——

Mr. Hinojosa. On the State legislation that is 20 local enterprise zones will be set up statewide.

Mr. Rangel. And the Governor sets up a board, local board to review the applications?

Mr. Hinojosa. That is correct.

Mr. Rangel. Has he appointed members to that board yet?

Mr. Hinojosa. He is in the process of appointing the members.

Mr. Rangel. Has he discussed the membership of the board with you?

Mr. Hinojosa. No, sir.

Mr. Rangel. Have you any idea who is going to be appointed to the board?

Mr. Hinojosa. I do not.

Mr. Rangel. Is it likely that you would know anybody on that board?

Mr. Hinojosa. Yes. I would.

Mr. Rangel. Do they enjoy the same party affiliations as you?

Mr. Hinojosa. Yes. He is a Democrat and I am a Democrat.

Mr. Rangel. Well, it makes a lot of sense why you support it.

Tell me, the McAllen Chamber of Commerce has put out a paper called the Enterprise Zone Fact Sheet, and here it says that the State board—no, wait.

The State board will review and grant—somewhere it says that. It says you can't have more than 10 Federal zones somewhere. Is that in there?

Ms. Richmond. Yes, it is in there.

Mr. Rangel. You have banned McAllen from getting more than 10 Federal enterprise zones?

Ms. Richmond. Sorry. Could you repeat your question?

Mr. Rangel. It says Texas may have only 20 local enterprise zones at any one time. No more than five local zones may be designated by the State during any 12-month period. No more than 10 local zones can be designated as Federal enterprise zones in the State of Texas.

You can't have more than 10 Federal zones in Texas?

Ms. Richmond. That is true.

Mr. Rangel. Now, suppose you reach your limit, then who would you think would get the remainder of the 65 zones over a 3-year period?

Ms. Richmond. If you would——

Mr. Hinojosa. If I may, Mr. Chairman, one of the reasons we limited the number of zones is because we want to see how they actually work, see if they work the way they are supposed to work in theory. We can always come back and amend the legislation and increase the number of zones if, in fact, they turn out to be a successful thing as predicted.

Mr. RANGEL. My problem, Representative, is that there won't be enough to go around. You are saying that for the sovereign State of Texas that 10 is enough.

Mr. HINOJOSA. Actually, if Federal legislation that is proposed has a limit of 75 would be an experimental basis, realistically we didn't think we would be able to get more than that.

Mr. RANGEL. You can bet on that.

Tell me, Mr. Logue was saying it is almost immoral for poor communities that have suffered the most during the recession—for some in the Nation, a depression—that these poor communities be competing against each other and a poor town like yours may be designated because of your understanding of how the State board works, but somebody else would be left out.

He just thought that this competition among poor communities was just something that we shouldn't have to do for the very limited designations that are available in the bill.

Do you have any views on that concept?

Mr. HINOJOSA. The competition is going on right now with the different Federal programs that exist because of the limited number of funds that are available to have for job training, for people to qualify for welfare and for housing programs and what have you.

It goes on all the time. We are trying to experiment with the different concept and different approach to try to get some of those people off the welfare progams and get them into permanent jobs.

I know that the competition problem will always exist. Some more than others.

Mr. RANGEL. Who is the Congressman from your area?

Mr. HINOJOSA. Congressman de la Garza.

Mr. RANGEL. He testified in support of it, but you would feel more comfortable if you could be designated as an enterprise zone, wouldn't you?

Mr. HINOJOSA. Yes, I would. We have a problem trying to attract businesses into south Texas. Deep south Texas, we are right next to the Mexican border.

Mr. RANGEL. So what both you and Ms. Richmond are saying is your community is so poor that you hope to get a designation by the State and that if you did receive a designation by the Federal Government that this could be some kind of an economic showplace to show how this system could work?

Mr. HINOJOSA. That is correct.

Mr. RANGEL. But Mr. Logue is saying why should I be restricted in looking at my enterprise zone when I have the same compassion and dedication for my constituents as you and Congressman de la Garza have. Why should I have our people reading all about the possibilities of being designated—especially when your chamber of commerce is talking about all the possible good things that can happen—and the chance of your being designated are so very, very slim?

It is improbable that your community would be designated for a Federal zone. We have 3,000 communities eligible, you know, we got 15 zones a year. What are your chances?

Ms. RICHMOND. When you are faced with an economic situation that we are faced with today, I think that we have to try to find the program that might give us a helping hand. Now, if it is determined that we are not one of the Federal zones, then we will work with a State zone.

Mr. **Rangel**. You don't have one unless your representative knows more about—de la Garza knows about the Federal system.

Mr. **Hinojosa**. Mr. Chairman, I think our chances of getting designated as a State enterprise zone are excellent.

Mr. **Rangel**. I would bet you do. I wish I could say the same on the Federal program.

In any event, wouldn't you agree, Ms. Richmond, that if the program is nearly as successful as your chamber believes it would be—assuming you got dual designation, State and Federal—there would not be any revenue shortfall? You are getting people who are receiving welfare, who receive subsidies, people who are going to jail, I assume, getting in trouble, you are spending more on prisons and police than you would on a lot of other programs, and you are saying if you get these people working and paying taxes and whatever benefits are given, that they should be fiscally neutral. If not, it would produce revenue.

Assuming that is your right—and the chamber knows more about this than I do—why are you just saying that we should have 25 a year? Why isn't the chamber out there saying that we should have these in every pocket of poverty throughout the United States—they should be designated, get people back to work, get them making money, paying taxes?

Mr. **Hinojosa**. Mr. Chairman, if I may, if that is the case then maybe we should have 250 enterprise zones.

Mr. **Rangel**. You are coming around, brother.

Mr. **Hinojosa**. There are areas that do not need enterprise zones. Look at Houston; they have a low unemployment rate.

Mr. **Rangel**. All I meant, Representative, is where you have helpless communities that are really written off, you know, and it is just not novel. The HUD Secretary this morning said there are 3,000 communities that are eligible. I guess he is not talking about Houston and Dallas.

Mr. **Hinojosa**. I hope not.

Mr. **Rangel**. No. So what I am saying is that I am probably out of step with the rest of the supporters of this legislation, but I really believe that most of the supporters of this bill in the House are saying it is better than nothing.

Mr. Mitchell.

Mr. **Mitchell**. Mr. Chairman, may I ask, if they say that we will designate 3,000, will it pass?

Mr. **Rangel**. Well, let's ask this, Mr. Mitchell: I would assume—I think Mr. Logue made the point—the administration instead of talking about the revenue losses would be talking about revenue gains. I mean, the economic recovery package, you know, they didn't talk about $750 billion losses in revenue; they talked about getting the country back to work.

So it is a question of how we do it. I assure you that if you divide 35 districts into 3,000, it comes out a heck of a lot easier than dividing 25 into 435.

Mr. **Mitchell**. If it will pass, we will support it either way. But what we are saying is we need it. We need something.

Mr. Rangel. Mr. Vander Jagt has asked me to ask you, Mr. Mitchell, as to whether or not there is a plan in Benton Harbor where you are the city manager to implement enterprise zones? Do you have a plan in case you get it?

Mr. Mitchell. We do have a plan. As a matter of fact, Mr. Jackson—it is almost too heavy for me to hold——

Mr. Rangel. Please get that to Congressman Vander Jagt so he can review that plan.

Mr. Mitchell. Not only that, we have a local business incentives program on the local level that we are in the process of developing currently. It is based on the Federal legislation. And what we are doing is we are taking all of the assets, the incentives we have in our command, and identifying those, noneconomic, and direct and indirect, and trying to package those into a marketing document that we can promote. That way, when—I am being positive—when the Federal legislation passes, we can tack it on. That is an extra incentive.

We believe a strong marketing plan where the promotion is out there where people understand it—we believe it will work.

Mr. Rangel. You believe that you can effectively compete with the limited number of enterprise zones?

Mr. Mitchell. That is correct.

Mr. Rangel. Mr. Jackson, Congressman Vander Jagt wanted to know what an enterprise zone would mean to your company. What would it mean?

Mr. Jackson. Mr. Chairman, I am one of the few companies that still exists to make money in Benton Harbor. Right now, I currently make about a 3-percent return on sales. That is predicated on a total investment in my facilities of less than $2 per square foot. If I had to maintain a building like in undepressed areas, I also would not be profitable. This is a false economy.

With the package that we have here, with what we see as the companion of the State legislation, Federal, and what Mr. Ellis described as local, in my particular business I would be running about 15 percent of sales from where I am at this point. That is basically normal to a regular business.

However, you would also realize that at that point, if that is available, now you have the incentive where a person can come in and build a new building, put in good equipment, hire a reasonable amount of residents and make money. That, right now, is not the case. So with the zone, I get good neighbors, my tax base goes up. The city needs that. That gets us back to self-sufficiency. And I have the wherewithal to make the money.

One important thing about this bill which is vastly different than most other Federal programs is a nonadversary situation. I don't have to fight with the bureaucrats in order to do business. Right now, most of the programs you have are so entangled with redtape, they are so related to the fact that it only can address distressed business, it is the same as saying you can't help me unless I am distressed; otherwise, there is nothing you can do.

Consequently, you never have anything but distressed business where you put incentives. This allows the potential of getting back to where you are a viable economy like nondistressed areas. It is very important.

From my position in my business, it would give me a better feeling of community involvement and security of having a better community.

Mr. RANGEL. Don't say that your government doesn't provide incentives unless you are distressed now, because Mr. Reagan gave back $750 billion that belongs to individuals and reduced taxes, and a substantial portion of that went to the business sector.

Now, true, he had to take back $100 billion of it; and true, we have a $200 billion deficit. But he is trying to reduce tax liability.

You don't have any problem with that?

Mr. JACKSON. No, I don't.

I would like to address a situation you mentioned concerning the bidding process. Obviously, Benton Harbor is in the least position to really compete in a total quantitative number. We have spent a lot of time discussing this with HUD. That is exactly what is their intent.

Mr. RANGEL. What did they tell you?

Mr. JACKSON. We believe their intent is that they realize that Federal legislation itself is primarily a preservation of profits. It is a tax incentive that is applied to profits. You don't make any money and you are not worth anything.

State legislation and State business involvement is more related to the cost of doing business. HUD is saying to the States, "We want to see how you are going to participate in order that the business in that area can in fact make money, so that the profits generated can in fact be plowed back and maintained."

Further, if the city says, "We will take the enterprise zone but, fine, we will do nothing else," the whole thing collapses on the basis of noncontrol from the city government.

So from the expression that we got from HUD, it is not a total quantity bidding process; it is a complete package process of how much can be done. It is a lot like equating the biblical story of the two mites. The city is going to give all they have. That would be very heavy in the decision of HUD for a position.

Likewise, if Benton Harbor was not willing to do its most, perhaps it should go to another city.

Mr. RANGEL. Miss Richmond, do you, as director of the McAllen Chamber of Commerce, go to conferences where people represent other cities in the chambers?

Do you have a national chambers of commerce?

Ms. RICHMOND. Yes, we do.

Mr. RANGEL. And have the enterprise zones come up in discussion with these national groups?

Ms. RICHMOND. Yes, on occasion.

Mr. RANGEL. Is it safe to say that most all of the businesses that are involved with the chamber would support reducing tax liability under the enterprise zone?

Ms. RICHMOND. In my constituency in McAllen, I think so.

Mr. RANGEL. I don't mean that. I heard your testimony. Isn't it safe to say that the national chambers of commerce around the country would support a program that would reduce their Federal tax liability?

Ms. RICHMOND. I would think so, yes, sir.

Mr. RANGEL. Are you going to help the representative in getting one of those enterprise zones in his city?

Ms. RICHMOND. Yes. As much as I can.

Mr. RANGEL. And the chambers?

Ms. RICHMOND. I think so, yes.

Mr. RANGEL. You are a very lucky representative. I wish I shared the support that you have.

Mr. JACKSON. Mr. Chairman, our chamber of commerce represents 85 percent of its membership outside of Benton Harbor. Our chamber has been most helpful in trying to resolve the problem of getting an enterprise zone.

We have solved the problem of the boundary lines and the outlying business districts which are surrounding us, and are totally different political bodies as well. Our chamber of commerce has been of great help for this.

Mr. RANGEL. Is there any reason why a chamber of commerce would not support this?

Mr. JACKSON. We have heard of some that, say, impartial competition is unfair. Our answer is that things right now are unfair. It is not as though we are on an equal basis in distressed areas. They are below what is in the surrounding areas.

We are attempting by endorsing this legislation and putting it in place to bring parity between distressed and nondistressed areas for the ability of the company to make profit in the area that they are in.

Mr. RANGEL. Thank you.

Mr. Logue was severely critical of the enterprise zone bill in its present form because it demands competition among the weakest of communities.

Is there anyone here that would care to dispute that view that he recommended here this afternoon?

Mr. JACKSON. I think I have done that.

Mr. MITCHELL. Do you want to start a debate between the panelists? It sounds to me as though the problem is with HUD rather than with the legislation. I am not sure he isn't saying it couldn't work, but with a few minor changes.

Mr. RANGEL. I understand. Unless Vander Jagt has the same contract as the Representative from Texas, you should understand what he is saying. He is saying that poor communities will have to get together with the cities and States, fire their best shots and compete against each other to get 75 zones which would take care of the poor and rural and urban communities for a 3-year period.

What is the name of your city?

Mr. MITCHELL. Benton Harbor.

Mr. RANGEL. That would be competing with New York City.

Mr. MITCHELL. When you have 47 percent unemployment you can compete with anyone, with the small cities.

Mr. JACKSON. Congressman, if we might make a recommendation here, if there are 3,000 eligible communities, perhaps one thing you should do is to change the criteria so that the total pool would be reduced before the selection is made as to how much commitment is being made by the State and Federal Government by increasing the standards that are in the bill to such a level, maybe 250 would qualify before the selection is made.

That may be one suggestion to cut the gap between the 75 and 3,000. It does seem to be of concern. That is a rather wide gap.

Mr. **Rangel**. Mr. Logue said that he didn't think that the administration was sincere about the passage of this legislation because it has been around here for about 3 years. I have had three conversations with Mr. Mayo, two conversations with the Secretary of HUD, many conversations with Congressman Garcia and a couple of conversations with Congressman Conable and many conversations with Congressman Kemp.

And that is before receiving any literature, letters, telephone calls from chambers of commerce or anybody, in my community, city or State.

Now, I know there is a great interest in this legislation out there somewhere, because people have signed on this bill. And no one has worked harder than Bobby Garcia and there have been times that Jack Kemp has just thrown up his hands, but it seems to me that since it is impossible to do anything at all this year, and since the chairman of the full committee agreed to have hearings so that we will have an opportunity to take a look as to what the administration's bill really is—what I meant to say was the Garcia-Kemp bill is the support from the administration and other alternatives.

And I think we received some flexibility from the Secretary of HUD, who indicated that he is willing to work with us to see if we can broaden the scope without damaging the concept, whether we can look to see if there could be seed money, risk venture capital, to see how much we would be saving in transfer payments as opposed to just talking about revenue losses.

I am confident that if we can get the support of this panel through your Representative to get the input and work with our staffs, that we will be able to get some people to say if that is all we have in the Federal Government to rely on for the poor that find themselves caged in their rural and inner city areas, then let's go with it and see whether it would work.

Miss Richmond said it well, if it doesn't work, we have lost nothing, because people will not invest in these areas, but if it does work, we have put the country back to work and we have not asked the poorest of our citizens to compete among each other and we have allowed the private sector to see just how much tax credits they can get.

It didn't sound fair to me when it was first introduced, but as a result of these hearings and the flexibility that the legislation has had, and the input of you out there who have to make certain that this thing can work, I am confident that these have been good hearings.

So, let me thank you individually and collectively on behalf of the full committee and I urge you not to wait for the next hearings before we hear your voices again here in Washington.

Thank you very much. The committee stands adjourned, subject to the call of the Chair.

[Whereupon, at 5:20 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF FRANK S. SWAIN, CHIEF COUNSEL FOR ADVOCACY, U.S. SMALL BUSINESS ADMINISTRATION

I greatly appreciate the Committee's consideration of the Small Business Administration's interest in the Administration's Enterprise Zone proposal, H.R. 1955. It is my firm belief that the small businesses of our Nation must be major participants for Enterprise Zones to be successful in local economic revitalization and job generation.

My statement will cover the following topics: the role of small business in local economic development, the enterprise zones and small business (citing specific Advocacy research), comments on the legislation, and some concluding remarks.

The Office of Advocacy was created within the Small Business Administration [SBA] under Public Law 94-305, to assure that small firms and small entities receive appropriate consideration in Federal policy decisions.

We are statutorily mandated to develop a small business data base and to foster analytic information from which small business policy may be developed in a deliberate manner.

We also seek to provide information on small business to interested persons working at the state level. For example, we have held five annual National Conferences on the States and Small Business. State and local economic development is a central issue and our sessions on Enterprise Zones have drawn great interest.

SMALL BUSINESS IN LOCAL ECONOMIC DEVELOPMENT

Small business is a significant factor in local economic development. The impetus for state and local economic development policies supporting small firms can be traced to three factors: First, the difficulty of achieving stable local employment and continuing local growth from State or local policies which are aimed at large firms; second, evidence that it is small firms that play major roles in job creation and innovation; and third, past experiences indicating the general unwillingness of many larger businesses to locate in central city areas.

Small business continues to be an important source of growth and job generation in the economy. New studies are now confirming that firms with under 100 employees have been responsible for over half of the national employment growth. Research sponsored by the Office of Advocacy confirmed this for the period 1976-1980, although such firms represented only 36 percent of the 1976 employment force, they contributed more than half of the net new jobs. We expect that upcoming data for the 1980-1982 period will show that small business plays an even more important role in job generation and retention.

Another area where small business has contributed to our Nation's economic and social well-being is job training. Over 65 percent of new workers get their first jobs with small businesses—that is two out of every three new workers.[1] While some of these individuals may move on to higher paying jobs with larger firms, it should be realized that the costs incurred to initially train them are borne by small business. This training enables these workers to attain higher incomes and be productive members of the work force. The SBA estimates that training allows workers moving from small to large firms to increase their incomes by an average of 23 percent in the first year.

On the down side, we estimate that small firms lose about 30,000 workers per year at an average training cost per worker of $5,000. That loss equals $150 million per year for small firms. In spite of the large cost to small firms, they provide the most efficient means of training unskilled or low-skilled workers for entrance into the economic mainstream.

As a result, we believe any planning for economic growth must focus on creating a positive environment for new business creation. Such an environment must include easy access to appropriate sources of capital, particularly venture capital, at various stages of the entrepreneurial life cycle. Costs of capital must also be affordable and competitive at the local level. Additionally, high entry barriers to competition and burdensome regulatory costs must be addressed.

The delicate balance between public sector initiatives and private sector risk taking and know-how must be carefully weighed in favor of the long-term impact of small business growth on regional economic development.

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[1] Human Capital Transfer From Small to Large Businesses. Dr. Bradley R. Scheller, Capital Research, Inc., Washington, D.C., 1981.

ENTERPRISE ZONES AND SMALL BUSINESS

Enterprise zones incorporate ways to provide business activity within certain designated urban and rural areas, regulatory and relief tax incentives, such as a reduction in taxes on capital gains, employment tax credits, employee tax credits, additional investment tax credits; and continued availability of (tax exempt) industrial development bonds used to finance zone property.

The various objectives of enterprise zones includes job creation in the inner city, capital investment in the depressed urban zones, retainment of existing enterprises in those zones, encouragement of business expansion there, and encouragement of new enterprise investment.

Some twenty states have passed enterprise zone legislation in lieu of or to compliment Federal legislation. Some of this state legislation includes benefits to better assist small, developing firms. The Connecticut law, for example, provides for a revolving loan fund for both venture and working capital to small industrial or commercial firms in enterprise zones.

Over the last two years, the Office of Advocacy has directed its research efforts towards the role of small business in Enterprise Zones. How would new, existing and/or relocated small firms thrive in an Enterprise Zone type environment? Research findings point to the significance of small businesses in the economic revitalization of the inner cities.

A research project was completed in November, 1982 by Coopers and Lybrand, an international accounting and consulting firm. This report, entitled "The Impact of Enterprise Zone Tax Incentives on Selected Small Businesses" examines the cash flow impacts of proposed Federal tax incentives as well as state incentives from two selected states.[2]

This study applied a tax impact model to the financial data of hypothetical small businesses in three major industries—manufacturing, wholesale trade, and retail trade. Financial data for two size classes of small businesses were analyzed, firms with $0–1 million in assets and fewer than twenty employees and larger small firms with $1–10 million in assets and 20–50 employees. The effects of Federal and state incentives were measured using provisions from the "Enterprise Zone Act of 1982" and the sets of incentives enacted by the Connecticut and Florida legislatures.

The impacts of the incentives were illustrated by considering the tax liability and cash flow positions of each business under two conditions: as if the business operated outside of an enterprise zone and as if the business operated in an Enterprise Zone. Each of the sample firms was assumed to have sufficient capital available to fund expansions without recourse to the credit market. A total of 24 cases were examined twelve for each set of state incentives.

Some of the results of this research effort show that Federal incentives have a far more substantial impact on cash flows than either of the state incentives packages over the ten years analyzed. However, none of the 24 cases analyzed can use these credits during the first year, and the manufacturer and wholesaler (of both size classifications) generally cannot use the Federal credits until their third year of operation. Also, the "wage credit" provisions of the Federal incentives do not have substantial impact on the cash flow of firms during their first several years of operation. This feature is due to the lack of (or the low) tax liability experienced by these firms during their first years of operation although these credits can be carried forward. These incentives do have their greatest impact during the third to sixth year of a firm's existence.

The ability to generalize from the results of this study is limited. Given these limitations, a major conclusion drawn from the analysis conducted in this study is that the enterprise zone incentives may be of greater benefit to established firms expanding into enterprise zones, unless state and local governments include some cash flow incentives in their proposals. We have included this report for the record.

Another study recently completed for the SBA Office of Advocacy by Cambridge Systematics Inc.,[3] examines the structure of economic growth and decline within six areas that are potential candidate Enterprise Zones: Boston, Hartford, St. Louis, Cleveland, New Orleans, and Denver. Since we do not know which small firms are likely to participate in Enterprise Zones, the focus of the study is to identify the types and sizes of businesses which are most likely to locate and succeed in these areas. The identification process is expected to lead to an assessment of the opportunities for development of small, job-generating businesses that can provide applicable employment for nearby residents in areas of high unemployment.

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[2] The Impact of Enterprise Zone Tax Incentives on Selected Small Businesses, Final Report, Office of Advocacy, SBA, Coopers and Lybrand Economic Studies Group, Washington, D.C., November 1982, Contract No. PB 83-208447.

[3] Cambridge Systematics, Inc., "Small Business Participation in the Economic Development of Depressed Urban Sites: Implications for Enterprise Zones and Other Incentives Policies," (Washington, D.C.: Office of Advocacy, SBA, report completed under Award No. SBA-6060-OA-82, 1983), p. 8-9, hereafter referred to as "Economic development."

Preliminary findings suggest that the level of infrastructure improvements will attract specific types of new industries to Enterprise Zones. Light manufacturing, trade, and services have relatively low requirements for utilities and land requirements and, therefore, are more likely to be compatible with inner city areas than are heavy industries unless large investments in infrastructure are made by the local governments. Infrastructure requirements also influence relocations and expansions since firms often bypass regional decision-making and begin their location search on the local level. Upon completion of this report, copies will be available for the record.

With specific regard to Enterprise Zone legislation, many states have joined in President Reagan's call for private sector initiatives and direct community involvement in the redevelopment of blighted areas. These states have sought ways to combine private and state funds with existing Federal programs to achieve the maximum enhancement for employment and redevelopment in the zones. In this regard, state initiatives, together with HUD's existing programs, may provide some catalyst for new small business innovation, policies, projects and programs.

Many states are taking initiatives in this area. As I previously mentioned, we have discussed enterprise zone issues at our annual Conference of the States. For the fifth conference, which occurred last month, we prepared a handbook on what the individual states are doing to support local economic development. We also provided a summary of their venture capital activities. A more extensive catalogue of state venture capital activities is currently being prepared by my office. We will be pleased to submit our reports on state economic development and venture capital programs for the record.

H.R. 1955

With regard to H.R. 1955, "The Enterprise Zone Employment and Development Act of 1983," the Administration proposes to stimulate community development by encouraging businesses to invest in rural and urban zone areas in order to increase employment, reduce poverty, and generally encourage better neighborhoods. The required private, Federal, state, and local cooperative effort would primarily be accomplished at the Federal level through tax relief and incentives.

States are attempting to address the capital formation and cash flow needs of start-up and small firms by providing loan and venture pools for the zone areas. As you know, however, these very firms for which the loan pools are designed, cannot support significant levels of debt and simultaneously survive and prosper. Instead equity pools or incentives to encourage private equity infusion would be much more useful financing tools for new starts in zone areas. As I stated previously, I believe the states are beginning to fill this role.

CONCLUSION

Mr. Chairman, I have sought to establish, that new, existing and relocated small businesses operating within the geographic boundaries of a designated enterprise zone will represent a vital element for its success. Small businesses are key to the economic health of the area and to the new jobs which must be generated for the unemployment residents for the area. Small businesses will play an important role in any enterprise zone legislation.

An important additional issue deals with the so-called "infrastructure" problem. The ability of small firms to be attracted to a zone will depend on how the local administrative authorities handle the providing of important governmental services such as transportation, fire, police, garbage, etc. Without access to these services at reasonable costs, many small firms will be dissuaded from establishing their operations in a zone area.

Another consideration reflects comments expressed to me by small firms of their need to employ properly skilled individuals who can be trained for a job for a period of time without having such persons quickly shift to other employment after receiving their initial training and skills development. Thus, the availability of effective technical and semi-skilled job training facilities for zone residents is needed and should be recognized in the proposals of state and local governments.

As Chief Counsel for Advocacy, I have had numerous opportunities to review Federal and state administrative labyrinths that have been very costly for small firms and have kept them from achieving their business goals in a timely manner. In keeping with the spirit of the Enterprise Zone legislation, I strongly suggest that reporting and administrative requirements be kept as simple as possible.

We appreciate this opportunity to present our thoughts on this important proposal. I urge the Committee to act favorably, and promptly on the Administration's Enterprise Zone proposal, H.R. 1955.

THE IMPACT OF ENTERPRISE ZONE TAX INCENTIVES ON SELECTED SMALL BUSINESSES

FINAL REPORT

Prepared for the
U.S. Small Business Administration
Office of Advocacy

November 1982

Coopers & Lybrand
Economic Studies Group
Washington, D.C.

Coopers
&Lybrand

ABSTRACT

The objective of this report is to provide the Small Business Administration (SBA) with a quantitative illustration and an analysis of the impacts of proposed and actual enterprise zone incentives on the cash flow positions of small businesses drawn from different industries. These incentives are being offered by several states (14 as of November 1982) and have been proposed at the federal level by the Reagan administration through legislation introduced in both the House of Representatives and the Senate. An underlying question concerning the state and (proposed) federal incentives is whether they provide a sufficient stream of benefits to attract both new and expanding businesses to enterprise zones.

In order to conduct this analysis, the Coopers & Lybrand proprietary enterprise zone tax impact model was applied to hypothetical firms constructed from aggregate industry data. The firms selected represented three industries (manufacturing, wholesale trade and retail trade); in addition, each firm was examined at two different assets levels. The impacts of enterprise zone incentives were illustrated by considering the tax liability and cash flow positions of each firm in two circumstances: if it operates outside of an enterprise zone, and if it operates in an enterprise zone. To provide a further basis for analysis, enterprise zone incentives from two different states were used, and their impacts were compared.

The enterprise zone incentives were found to provide cash flow benefits to all firms; however, the majority of the benefits were not available to the firms during their first several years of operation. It was also found that the federal benefits were far greater than those provided by either of the state enterprise zone programs. The availability of state enterprise zone incentives during a firm's first years of operation and the amount of state benefits actually available to a firm were found to be restricted by three main factors: the 'add back' provisions in the states' legislation; the fact that state tax rates are lower than federal tax rates; and the fact that any decrease in a firm's state tax liability leads to an increase in its federal tax liability.

The major conclusion drawn from the analysis conducted in this study is that the enterprise zone incentives will be of greater benefit to established firms expanding into enterprise zones than to new firms starting business in an enterprise zone. The new firm has to be concerned with surviving its initial years of operation and is likely to heavily discount potential benefits earned but unavailable in those years.

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THE IMPACT OF ENTERPRISE ZONE TAX INCENTIVES ON SELECTED SMALL BUSINESSES

OVERVIEW

The purpose of this report is to illustrate and analyze the combined impact of selected Federal and State enterprise zone incentives on firms of different sizes in each of three industries. In each industry, firms of two small business categories were examined: a "small" firm was one with $0-1 million in assets and fewer than twenty employees; a "large" firm was defined as having $1-10 million in assets and from twenty to fifty employees. The first is a manufacturing industry (SIC #2751), producing letterpress and screen commercial printing. The second (SIC #5087) wholesales equipment and supplies to firms engaged in providing laundry services, beauty and barber services, and janitorial services. The third, a retail industry (SIC #5812), is comprised of restaurants and food service establishments.

The selection of these three industries provided a contrast between labor intensive industries (#5812 and #2751) and an industry with a relatively low labor content (#5087). The two labor intensive industries provided a further contrast between firms with relatively high wages and skilled employees (#2751), and firms with a less skilled and lower paid workforce (#5812). Although a "high technology" firm was not specifically selected for analysis, its characteristics would be similar to those of SIC #2751 when assessing the impact of Enterprise Zone incentives.

The Coopers & Lybrand proprietary enterprise zone tax impact model provided the basis for assessing the impact of the various incentives for each of the firms and industries. For each firm, the "base case" represents a new firm conducting business without the benefit of enterprise zone tax incentives. The "EZ" or "enterprise zone case" is the same as the "base case" with the addition of the enterprise zone incentives provided under the administration's "Enterprise Zone Tax Act of 1982" (Senate Bill 2298). The enterprise zone cases were also evaluated by separately examining the effects of incentives provided by the States of Connecticut and Florida.*

The federal enterprise zone incentives examined in this study consist of an additional Investment Tax Credit (ITC) on depreciable property and wage credits for employees hired (jobs created) within designated areas. Special wage credits are also available for the hiring of persons falling within federal poverty or low-income guidelines. The State of Connecticut incentives include property tax abatements for all business expansion into designated areas. In addition, manufacturing firms can qualify for a 50% reduction in their corporate income tax and for a $1000 grant for each new job created. The State of Florida incentives include state income tax credits for firms employing residents of designated enterprise zones in newly created jobs and tax credits on property purchased for expansion of a business into those areas. Both states offer additional incentives that are not examined in this study. In most cases, the additional state incentives are not guaranteed to firms based on employment and location criteria alone. Such items as job-training assistance and low-interest capital are provided by the states on a discretionary basis.

The selection of industries that were examined was based on sample data provided by the Small Business Administration (SBA). The SBA data consisted of "industry profiles" compiled by computing averages from aggregate data that was generated by sampling firms within particular industries. Within the confines of this sample, the selection of particular industries was designed primarily to illustrate the possible effects of the combined state and federal tax incentives. Questions concerning what industries are appropriate for and likely to locate in "enterprise zones" are beyond the scope of the present analysis; however, the results of this study should provide analysts with useful evidence for addressing these and other questions.

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* Enterprise Zone incentives offered by these states were selected for illustrative purposes. Both states have passed and are beginning to implement their programs, and they provide geographic contrast and a differing set of incentives.

ASSUMPTIONS

The principal assumptions concerning costs and employment levels for the firms examined are summarized in Table 1, with additional detail provided in Appendix A.* Comparisons among the industries illustrate differences in operating structures. Industries #5812 (retailer) and #2751 (manufacturer) have similar numbers of employees, but the skill mix within the two industries is significantly different. Industry #5087 (wholesaler) uses relatively little labor while generating significantly higher sales than the other two industries.

Within each industry there are differences among the two asset-level firms. For industry #2751, the larger firm has 7.7 greater sales and 7 times as many employees as the smaller firm. In industry #5087, the larger firm generates eight times the sales with only four times as many employees. In industry #5812, the larger firm generates only three times as many sales, but has four times as many employees.

The inter- and intra-industry differences mentioned above were, for the most part, specified in the aggregate industry data provided by the SBA - (see Table 2 for further detail). Because of these differences, the assumptions made in further detail specifying the financial and operating characteristics of the firms are not entirely symmetrical; however, an attempt has been made to generate realistic data based on industry statistics from several sources. The results provide a basis for evaluating the impacts of the combined federal and state tax incentive programs, and for addressing some of the policy issues that they raise.

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* Financing costs (both fixed asset and working capital) are included in the "overhead" category. No specific debt/equity ratios are assumed in the analysis.

ENTERPRISE ZONE INCENTIVES

Three sets of incentives targeted to designated areas or "zones" were used in preparing this study. The first set were those proposed in the administration's tax bill, referred to as the "Enterprise Zone Tax Act of 1982" (Senate Bill #2293). The other two sets of incentives were those enacted by the Connecticut and Florida legislatures.

The relevant features of the administration's proposal include wage credits and investment credits. The wage credits are of two types: first, a 10% credit against a firm's federal taxes for payroll in excess of that in the year prior to an area's designation as an "enterprise zone", with a maximum credit of $1500 per worker per year; second, an additional wage credit for "disadvantaged workers" that includes a 50% credit for the first three years of employment decreasing by 10% in each of the next four years. Investment Tax Credits (ITC's) include a special 10% credit against a firm's federal taxes for buildings and site development, and an additional 5% (for a total of 15%) for equipment purchases. These federal credits may be "carried forward" and are not "added back". Table 3 provides a summary of the first year operating figures for the various firms and a breakdown of the federal wage credits that are available to them.

The State of Connecticut's incentives included in this study are targeted primarily to manufacturing industries. Manufacturing firms can qualify for a ten-year, 50% reduction in their state income-tax; a five year abatement from (or increases in) their local property taxes; and a $1000 grant for each new, permanent, full-time job that they create. Non-manufacturing firms can qualify only for a five year graduated abatement from (or increases in) local property taxes. These credits are 'added back' to income, but they cannot be carried forward.

The relevant State of Florida credits include a 25% wage credit and a credit for property taxes. The wage credit has a number of restrictions: it is only available to businesses in the designated area that employ residents of that area in newly created jobs; the maximum credit per employee is $4,500 (the equivalent of a 25% credit on an annual salary of $18,000); the employee must work at least twenty hours per week; and the credit applies for only twelve months per new job. The property tax credit applies for ten years providing a business operating in the designated area with a credit against their state income taxes for 96% of their school district property taxes. Both types of credits are 'added back' to income, and they may be carried forward.

The further specification and calculation of the federal and state incentives considered in this analysis are detailed in Appendices A and B.

RESULTS

A total of twenty-four cases were examined, twelve for each set of state incentives. The two groups, with twelve cases each, included six cases with federal and state enterprise zone incentives and six cases without these incentives. Cash flow summaries are provided in Appendix B. Tables 4A and 4B summarize the cash flows for all cases and provide a comparison of the relative benefits (as compared with sales) obtained by the different sized firms within each industry. Tables 5 through 7 provide a summary of the incremental effects that federal and state enterprise incentives have on the cash flow for each firm. While the study includes only some of the incentives offered by the two states, viewing these separately and in conjunction with the federal incentives provides a basis for analyzing the effects of these types of tax-incentive programs.

The primary results of this study are:

- The enterprise zone tax incentives generate cash flow benefits for all firms studied. During the ten year study period, the amount of benefits range from $137,730 to $178,130 for the small firms, and from $533,360 to $1,059,420 for the larger firms.

- The federal incentives have a far more substantial impact on cash flows than either of the state incentive packages over the ten years analyzed. However, none of the six firms analyzed (three SIC codes, two size classes) can use these credits during the first year, and the manufacturer and wholesaler (both size classes) generally cannot use the federal credits until their third year of operation.

- The "wage credit" provisions of the federal incentives do not have substantial impact on the cash flow of firms during their first several years of operation. This feature is due both to the lack of (or the low) tax liability experienced by these firms during their first years of operation and to the fact that while these credits can be carried forward, they are not refundable.

- The federal incentives have their greatest impact during the third to sixth years of a firm's existence. During this period, the firms begin to use wage credits that have been carried forward during the first years of operation. By the seventh year, the firms have exhausted the carry-forward credits, and the declining percentage 'disadvantaged worker credits' are no longer in effect (or provide only limited credits).

- The effects of the two categories of federal 'wage credits' (the 'disadvantaged worker credit' and the 'new jobs credit') depend on the skill level and salary level composition of the firm.

  .. For example, over forty percent of the employees in the restaurant industry were assumed to qualify for the 'disadvantaged worker credit', but because of its low wage scale the industry receives the lowest level of benefits per employee.

  - .. The wholesale industry, with some twelve percent of its employees qualifying for the 'disadvantaged credit' and with the highest wage scale, receives the highest level of benefits per employee.

  - .. The manufacturing industry falls between the two extremes; however, the fact that its benefits per employee, number of workers qualifying for the 'disadvantaged worker credit', and wage scale are closest to those of the wholesale industry indicates that the 'new jobs credit' has a greater impact than does the 'disadvantaged worker credit' (despite the $1500 per employee per year cap that is included in the current administration proposal).

- The incentives provided by the two states have an impact on cash flow in the early years of a firm's existence. However, the amount and nature of this impact is a function of several features, such as: the State tax rate; the type of incentive; the tax treatment of the incentive; and, the tax position of the firm.

- The Connecticut incentives for manufacturing firms provide benefits in the first year due to the property tax incentive. The 'new jobs' incentive provides a substantial benefit to these firms in the second year. The benefits realized from the Connecticut incentives for manufacturing firms remain relatively stable during the study period.

  - .. The first and second year impacts of the Connecticut incentives are augmented by the fact that the business is not liable for federal taxation during these years (this applies to both the base cases and the EZ cases because of federal loss carry-forward provisions).

  - .. The stability of the benefit amount derives from the timing of the different incentives. During their initial years the firms are able to apply both the 'new jobs grant' and the 'property-tax abatement' incentives to improve their cash flows. As the amounts of these incentives decline, the effect of the ten year, 50% reduction in the state income-tax increases as the taxable profits realized by both firms increase.

  - Under the Connecticut plan, the above incentives do not apply for non-manufacturing industries. These firms are only entitled to a separate, declining percentage property-tax abatement schedule. The majority of this incentive is realized during the firm's first several years of operation; however, both the absolute and relative amounts of this incentive are small.

- The Florida program extends similar benefits to both manufacturing and non-manufacturing firms. The majority of these benefits result from the wage credit which complements this aspect of the proposed federal program. The absolute total of these benefits is lower than those provided by Connecticut; however, relative to Florida's lower corporate tax rate, the total amounts are comparable.

  - Credits are also 'added back' in the year that they are earned; this increases the taxable income in the early years when accounting profits are quite low, with the result that the EZ firm applies a portion of its credits to offset a potential tax bill that is higher than would confront a non-EZ firm.

  - The net result is that, in their initial years, the firms apply some of their credits to offset relatively small state tax bills; however, the bulk of the state incentives are not available until years 3 through 6.

  - A further consequence of this system is that a portion of the state incentives are lost to federal taxation--by years 3 through 6 most of the firms are generating substantial cash flows, and they are generally subject to the highest federal marginal tax rate.

CONCLUSIONS

While the ability to generalize from the results of this study is limited by both its scope and the assumptions employed as part of the analysis, it does provide a quantitative illustration of at least the general impacts of some major enterprise zone incentives that have been proposed or that are actually in effect. The state incentives examined in this study do not represent the entire enterprise zone program offered by those states; however, they are the main non-discretionary incentives for which the firms qualify by meeting certain criteria. This study provides a basis for evaluating the effects that these tax-incentives can have on the industries they are designed to attract and the 'zones' that they are designed to restore.

As noted by a number of analysts, enterprise zone incentives are not likely, by themselves, to greatly influence a firm's start-up or location decision. The reason that the incentives examined in this study may not greatly influence these decisions is at least partially indicated by the results: for the most part, the incentives have only a marginal effect on a firm's cash-flow during its first years of operation. This means that in determining their real value, the firm must discount its potential return by both the fact that the credits are not available when they are needed most and by the fact that when they are available, they contribute to already positive cash flows. It also means that the available credits will be of greater value in initial years to established firms considering further expansion than to start-up businesses without an established record of earnings, and potentially facing initial cash flow problems.

TABLE 1

PRINCIPAL ASSUMPTIONS

	SIC #2751		SIC #5087		SIC #5812	
Assets ($ millions)	(0-1)	(i-10)	(0-1)	(1-10)	(0-1)	(1-10)
SALES						
Starting ($000's)	259	2,000	440.4	3,275	250	753.7
Annual rate of increase						
Year 1-4	25%	25%	25%	25%	25%	25%
Year 4-10	8%	8%	8%	8%	8%	8%
COSTS* (as % sales)						
Cost of Sales -payroll	45.1%	37.0%	22.7%	13.4%	21.3%	27.2%
-material	18.7%	35.0%	42.8%	54.0%	23.9%	20.1%
Additional Overhead	30.0%	23.9%	31.5%	29.6%	51.9%	48.6%
EMPLOYMENT						
Starting	6	42	25	10	40	7
Annual rate of increase						
Year 1 to 4	4%	4%	4%	4%	4%	4%
Year 4 to 10	0	0	0	0	0	0
Mix by skill level						
lowest	.5	3	.75	3	4	16
low	1.5	9	2.25	9	4	6
skilled	4	24	2.4	10	1	4
professional	1	6	.6	2.5	1	4
INVESTMENT						
New equipment ($000's)	40.5	363.6	68.8	595.4	13	40.1
FINANCE	100% Equity Assumed in all Cases					

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* Operating costs exclude depreciation expense associated with the initial investment in equipment.

Table 2

SUMMARY OF DATA PROVIDED BY THE SMALL BUSINESS ADMINISTRATION

SIC#(1)	2643	2711	2751	5023	5087	5093	5812	5961	5962
1 Sales ($1-10 million assets)	$2,307,439	$1,500,000	$2,000,000	$2,491,918	$3,274,805	$4,778,995	$753,657	$4,673,114	$4,745,229
2 Employees	41.5	57	42	37.5	25	25	40	30	60
3 Sales/employee ($'s)	$55,601	$26,316	$47,619	$66,451	$130,992	$191,160	$18,841	$155,770	$79,087
4 Sales ($0-1 mil. assets)	$558,873	$223,000	$259,000	$649,501	$440,396	$923,208	$250,000	$150,000	$250,000
5 Employees	6.5	7	7	5	6	7	10	3	6
6 Sales/employee ($'s)	$85,960	$31,857	$37,000	$129,900	$73,399	$131,887	$25,000	$50,000	$41,667
(3) minus (6)	-$30,379	-$5,541	$10,619	-$63,449	$57,593	$59,273	-$6,159	$105,770	$37,420
(3) divided by (6)	.65	-.83	1.29	.51	1.78	1.45	.75	3.12	1.90

Intra-firm Comparison of Sales per Employee
($0-1 versus $1-10 Million Asset-size)

(SIC #)	($ difference) (3) minus (6)	(ratio) (3) divided by (6)
2751	10,619	1.29
5087	57,593	1.78
5812	6,159	.75

(1) The SIC #'s correspond to the following industries:
#2643 - Manufacturer: Paper Products
#2711 - Manufacturer: Newspaper Publishing
#2751 - Manufacturer: Commercial Printing
#5023 - Wholesaler: Floor Coverings
#5087 - Wholesaler: Service Industry Supplies
#5093 - Wholesaler: Scrap Metal
#5812 - Retailer: Restaurants
#5961 - Retailer: Mail Order Houses
#5962 - Retailer: Vending Machine Operators

Table 3

FIRST YEAR SUMMARY OF FINANCIAL AND OPERATING FIGURES

	SIC #2751				SIC #5087				SIC #5812			
Asset size ($ millions)	(0-1)		(1-10)		(0-1)		(1-10)		0-1		1-10	
Sales ($000's)	259	259	2,000	2,000	440.4	340.4	3,275	3,275	250	250	753.7	753.7
Total Employees	7	7	42	42	6	6	25	25	10	10	40	40
Equipment Investment ($000's)	40.5	40.5	363.6	363.6	68.8	68.8	595.4	595.4	13.02	13.02	40.1	40.1
Materials Cost (% of Sales)	18.7%	18.7%	35%	35%	42.8%	42.8%	54%	54%	23.9%	23.9%	20.1%	20.1%
Payroll (% of Sales)	45.1%	45.1%	37%	37%	22.7%	22.7%	13.4%	13.4%	21.3%	21.3%	27.2%	27.2%
Overhead, Misc. (% of Sales)	30%	30%	23.9%	23.9%	31.5%	31.5%	29.6%	29.6%	51.9%	51.9%	48.6%	48.6%
Class I employees (#)	.5	.5	3.0	3.0	.75	.75	3.0	3.0	4.0	4.0	16	16
Avg. Payroll ($000's)	8.35	8.35	8.84	8.84	8.31	8.31	8.81	8.81	2.67	2.67	2.56	2.56
Fed. Wage Credits ($000's)	—	2.50	—	15.92	—	3.74	—	15.85	—	6.40	—	24.61
Class II employees	1.5	1.5	9.0	9.0	2.25	2.25	9.5	9.5	4.0	4.0	16	16
Avg. Payroll ($000's)	11.69	11.69	12.38	12.38	12.53	12.53	13.21	13.21	3.73	3.73	3.59	3.59
Fed. Wage Credits ($000's)	—	1.75	—	11.14	—	2.82	—	11.90	—	5.23	—	20.09
Class III employees	4.0	4.0	24.0	24.0	2.4	2.4	10.0	10.0	1.0	1.0	4	4
Avg. Payroll ($000's)	18.36	18.36	19.45	19.45	20.79	20.79	22.02	22.02	12.26	12.26	11.79	11.79
Federal Wage Credits ($000's)	—	6.0	—	36.0	—	3.6	—	15.0	—	1.23	—	4.72
Class IV employees	1.0	1.0	6.0	6.0	.6	.6	2.5	2.5	1.0	1.0	4	4
Average Payroll ($000's)	21.70	21.70	22.99	22.99	25.78	25.78	27.30	27.30	15.45	15.45	14.87	14.87
Federal Wage Credits ($000's)	—	1.5	—	9.0	—	.9	—	3.75	—	1.5	—	5.95
Total Federal Wage Credits ($000's)	—	11.75	—	72.06	—	11.06	—	46.5	—	14.36	—	55.37
Cash Flow (1) ($000's)	-35.90	-35.46	-287.98	-282.46	-63.88	-63.48	-538.00	-534.00	-10.08	-9.98	-26.23	-24.98

(1) First year results including all federal and Florida enterprise zone incentives, where relevant.

Table 4A

CASH FLOWS: CONNECTICUT

(Base Case and Enterprise Zone Cases)[1]
($000's)

	1	2	3	4	5	6	7	8	9	10
SIC #2751: Commercial Printing										
0-1[2] Base	-39.12	23.39	49.27*	75.84*	80.70*	81.67*	86.76*	92.25*	98.17*	104.56*
0-1 EZ	-36.65	34.23	59.83	103.28	111.60	110.97*	103.50*	108.73*	114.92*	121.71*
1-10 Base	-314.46	163.44	246.07*	341.27*	365.55*	356.53*	384.71*	415.09*	447.83*	483.15*
1-10 EZ	-292.64	230.86	347.99	564.83	523.50*	456.73*	483.00*	510.90*	541.29*	582.14*
SIC #5087: Wholesale Supplies										
0-1 Base	-68.66	25.85	59.74*	85.20*	90.49*	89.21*	95.00*	101.25*	107.98*	115.24*
0-1 EZ	-64.32	29.98	63.01	110.94	119.76	111.03*	106.49*	111.56*	118.24*	125.41*
0-1 Base	-577.23	171.15	356.28*	437.22*	468.24*	444.13*	480.11*	518.86*	560.63*	605.65*
0-1 EZ	-539.71	206.87	397.06	629.67*	527.24*	498.50*	529.22*	562.16*	603.43*	648.05*
SIC #5812: Restaurant										
0-1 Base	-11.40	18.46*	37.64*	62.85*	66.75*	69.86*	74.33*	78.74*	83.50*	88.64*
0-1 EZ	-10.58	20.60	45.28	80.31	86.71	93.65	101.15	99.34*	92.70*	97.94*
1-10 Base	-30.26	60.78*	106.22*	168.39*	180.12*	188.91*	202.58*	217.34*	233.27*	250.47*
1-10 EZ	-27.73	71.67	154.11	268.96	290.43	296.28*	248.98*	252.84*	268.87*	286.77*

RATIO OF BENEFITS TO SALES

"LARGE" FIRM VERSUS "SMALL" FIRM

Industry	Enterprise Zone Benefit Ratio	1st Year Sales Ratio
#2751	5.9	7.7
#5087	4.0	7.4
#5812	3.9	3.0

Table 4B

CASH FLOWS: FLORIDA

(Base Case and Enterprise Zone Cases) (1)
($000's)

Year	1	2	3	4	5	6	7	8	9	10
SIC #2751: Commercial Printing										
0-1 (2) Base	-35.90	28.30	52.70*	80.90*	85.63*	86.68*	92.04*	97.83*	104.07*	110.82*
0-1 EZ	-35.46	30.04	64.54	112.21	121.22	108.34*	106.01*	109.90*	116.03*	122.78*
1-10 Base	-287.98	195.08*	248.78*	368.79*	394.03*	386.13*	415.56*	447.34*	481.66*	518.71*
1-10 EZ	-282.46	207.42	379.86	614.03	507.99*	486.73*	510.13*	520.22*	554.01*	590.62*
SIC# 5087: Wholesale Supplies										
0-1 Base	-63.88	31.90	63.90*	91.14*	96.34*	95.30*	101.36*	107.90*	114.97*	122.59*
0-1 EZ	-63.48	33.76	72.79	126.50	132.28*	111.33*	112.84*	118.37*	125.39*	132.91*
1-10 Base	-538.61	216.79	362.48*	475.27*	507.36*	484.49*	521.85*	562.19*	605.81*	652.85*
1-10 EZ	-534.00	230.01	460.92	662.56*	579.87*	537.23*	570.93*	606.90*	649.95*	696.52*
SIC# 5812: Restaurant										
0-1 Base	-10.08	20.21*	40.66*	66.29*	70.36*	73.70*	78.02*	82.68*	87.70*	93.13*
0-1 EZ	-9.98	23.28	51.19	90.22	97.45	101.60*	107.96	92.24*	96.93*	102.46*
1-10 Base	-26.23	65.26*	112.69*	178.32*	190.70*	200.19*	214.63*	230.23*	247.07*	265.25*
1-10 EZ	-24.98	81.22	174.33	302.38	326.61	288.52*	261.02*	265.82*	282.76*	301.63*

* - Year in which the firm's federal tax liability is positive.

(1) Enterprise Zone cases include Federal incentives suggested in the administration plan and State of Florida incentives (as updated 7-1-82).

(2) Refers to the asset size of the firm (in millions of $'s) and indicates whether it is located in an enterprise zone (EZ) or in a non-enterprise zone (Base case).

RATIO OF BENEFITS TO SALES

"LARGE" FIRM VERSUS "SMALL" FIRM

Industry	Enterprise Zone Benefit Ratio	1st Year Sales Ratio
#2751	6.0	7.7
#5087	6.3	7.4
#5812	3.8	3.8

Table 5

CASH FLOW SUMMARY (CONT'D)

[illegible]

[illegible]	Year	CONNECTICUT Base Case	CONNECTICUT + State Incentives	CONNECTICUT + Federal Incentives	CONNECTICUT Final [illegible] Cash Flow	Year	FLORIDA Base Case	FLORIDA + State Incentives	FLORIDA + Federal Incentives	FLORIDA Final [illegible] Cash Flow
	1	[illegible]	[illegible]	0	[illegible]	1	[illegible]	[illegible]	0	[illegible]
	2	[illegible]	[illegible]	0	[illegible]	2	[illegible]	[illegible]	0	[illegible]
	3	[illegible]	[illegible]	[illegible]	[illegible]	3	[illegible]	[illegible]	[illegible]	[illegible]
	4	[illegible]	[illegible]	[illegible]	[illegible]	4	[illegible]	[illegible]	[illegible]	[illegible]
	5	[illegible]	[illegible]	[illegible]	[illegible]	5	[illegible]	[illegible]	[illegible]	[illegible]
	6	[illegible]	[illegible]	[illegible]	[illegible]	6	[illegible]	[illegible]	[illegible]	[illegible]
	7	[illegible]	[illegible]	[illegible]	[illegible]	7	[illegible]	[illegible]	[illegible]	[illegible]
	8	[illegible]	[illegible]	[illegible]	[illegible]	8	[illegible]	[illegible]	[illegible]	[illegible]
	9	[illegible]	[illegible]	[illegible]	[illegible]	9	[illegible]	[illegible]	[illegible]	[illegible]
	10	[illegible]	[illegible]	[illegible]	[illegible]	10	[illegible]	[illegible]	[illegible]	[illegible]
Totals			[illegible]	[illegible]				[illegible]	[illegible]	

	Year	CONNECTICUT Base Case	CONNECTICUT + State Incentives	CONNECTICUT + Federal Incentives	CONNECTICUT Final [illegible] Cash Flow	Year	FLORIDA Base Case	FLORIDA + State Incentives	FLORIDA + Federal Incentives	FLORIDA Final [illegible] Cash Flow
	1	[illegible]	[illegible]	0	[illegible]	1	[illegible]	[illegible]	0	[illegible]
	2	[illegible]	[illegible]	0	[illegible]	2	[illegible]	[illegible]	[illegible]	[illegible]
	3	[illegible]	[illegible]	[illegible]	[illegible]	3	[illegible]	[illegible]	[illegible]	[illegible]
	4	[illegible]	[illegible]	[illegible]	[illegible]	4	[illegible]	[illegible]	[illegible]	[illegible]
	5	[illegible]	[illegible]	[illegible]	[illegible]	5	[illegible]	[illegible]	[illegible]	[illegible]
	6	[illegible]	[illegible]	[illegible]	[illegible]	6	[illegible]	[illegible]	[illegible]	[illegible]
	7	[illegible]	[illegible]	[illegible]	[illegible]	7	[illegible]	[illegible]	[illegible]	[illegible]
	8	[illegible]	[illegible]	[illegible]	[illegible]	8	[illegible]	[illegible]	[illegible]	[illegible]
	9	[illegible]	[illegible]	[illegible]	[illegible]	9	[illegible]	[illegible]	[illegible]	[illegible]
	10	[illegible]	[illegible]	[illegible]	[illegible]	10	[illegible]	[illegible]	[illegible]	[illegible]
Totals			[illegible]	[illegible]				[illegible]	[illegible]	

Table 6

CASH FLOW SUMMARY ($000'S)

SIC #5087: WHOLESALE SUPPLIES

Asset size
($millions)

	[illegible]CTICUT			
	($0-1 [illegible]llion Assets)			
Year	Base Case	+ State Incentives(1)	+ Federal Incentives	Final 'EZ' Cash Flow
1	-68.66	4.34	0	-64.32
2	25.85	4.13	0	29.98
3	59.74	1.19	2.08	63.01
4	85.20	.81	24.93	110.94
5	90.49	.59	28.68	119.76
6	89.21	.37	21.45	111.03
7	95.00	.18	11.31	106.49
8	101.25	0	10.31	111.56
9	107.98	0	10.26	118.24
10	115.24	0	10.17	125.41
Totals		11.61	137.19	
Year	($1-10 million assets)			
1	-577.23	37.52	0	-539.71
2	171.15	35.72	0	206.87
3	356.28	9.19	31.59	397.06
4	437.22	7.00	185.45	629.67
5	468.24	5.01	53.99	527.24
6	444.13	3.18	51.19	498.50
7	480.11	1.52	47.59	529.22
8	518.86	0	43.30	562.16
9	560.63	0	42.80	603.43
10	605.65	0	42.40	648.05
Totals		99.14	498.31	

	FLORIDA			
	($0-1 Million Assets)			
Year	Base Case	+ State Incentives	+ Federal Incentives	Final 'EZ' Cash Flow
1	-63.88	.40	0	-63.48
2	31.90	1.86	0	33.76
3	63.90	3.86	5.03	72.79
4	91.14	6.60	28.76	126.50
5	96.34	3.86	32.08	132.28
6	95.30	3.87	12.16	111.33
7	101.36	.17	11.31	112.84
8	107.90	.16	10.31	118.37
9	114.97	.16	10.26	125.39
10	122.59	.15	10.17	132.91
		21.09	120.08	
Year	($1-10 million assets)			
1	-538.61	4.61	0	-534.00
2	216.79	13.22	0	230.01
3	362.48	24.98	73.46	460.92
4	475.27	22.18	165.11	662.56
5	507.36	18.51	54.00	579.87
6	484.49	1.54	51.20	537.23
7	521.85	1.48	47.60	570.93
8	562.19	1.14	43.30	606.90
9	605.81	1.34	42.80	649.95
10	652.85	1.27	42.40	696.52
		90.51	519.87	

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(1) Non-manufacturing firms are only entitled to a property tax abatement incentive.

Table 7

CASH FLOW SUMMARY ($000'S)

SIC #5812: RESTAURANTS

Asset size ($millions)		CONNECTICUT					FLORIDA			
		($0-1 Million Assets)					($0-1 Million Assets)			
	Year	Base Case	+ State Incentives(1)	+ Federal Incentives	Final 'EZ' Cash Flow	Year	Base Case	+ State Incentives	+ Federal Incentives	Final 'EZ' Cash Flow
	1	-11.40	.82	0	-10.58	1	-10.08	.10	0	-9.98
	2	18.46	.66	1.48	20.60	2	20.21	1.13	1.94	23.28
	3	37.64	.30	7.34	45.28	3	40.66	2.56	7.97	51.19
	4	62.85	.18	17.28	80.31	4	66.25	4.54	19.43	90.22
	5	66.75	.12	19.84	86.71	5	70.36	4.92	22.17	97.45
	6	69.86	.08	23.71	93.65	6	73.70	1.68	26.22	101.60
	7	74.33	.04	26.78	101.15	7	78.02	.06	29.88	107.96
	8	78.74	0	20.60	99.34	8	82.68	.03	9.53	92.24
	9	83.50	0	9.20	92.70	9	87.70	.03	9.20	96.93
	10	88.64	0	9.30	97.94	10	93.13	.03	9.30	102.46
Totals			2.20	135.53				15.08	135.64	
	Year	($1-10 million assets)				Year	($1-10 million assets)			
	1	-30.26	2.53	0	-27.73	1	-26.23	1.25	0	-24.98
	2	60.78	1.45	9.44	71.67	2	65.26	4.64	11.32	81.22
	3	106.22	.62	47.27	154.11	3	112.69	9.40	52.24	174.33
	4	168.39	.48	100.09	268.96	4	178.32	15.91	108.15	302.38
	5	180.12	.34	109.97	290.43	5	190.70	17.21	118.70	326.61
	6	188.91	.22	107.15	296.28	6	200.19	4.65	83.68	288.52
	7	202.58	.10	46.30	248.98	7	214.63	.09	46.30	261.02
	8	217.34	0	35.50	252.84	8	230.23	.09	35.50	265.82
	9	233.27	0	35.60	268.87	9	247.07	.09	35.60	282.76
	10	250.47	0	36.30	286.77	10	265.25	.08	36.30	301.63
Totals			5.74	527.62				53.41	527.79	

(1) Non-manufacturing firms are only entitled to a property tax abatement incentive.

APPENDIX A

METHODOLOGY FOR DERIVING FINANCIAL AND OPERATING DATA

A. Small Business Administration Data

Summaries of the data provided by the Small Business Administration (SBA) were prepared and initially utilized to generate:

1. sales for the hypothetical firms.
2. employee numbers.
3. sales per employee ratios for comparing the $0-1 million asset firms with the $1-10 million asset firms.

B. Operating Ratios

"Annual Statement Studies - '81" prepared by Robert Morris Associates (RMA) were used as the basis for industry operating ratios; these ratios were then applied to sales volume to generate (see Exhibits A1-A3):

1. cost of sales.
2. operating and other miscellaneous costs.
3. net fixed assets.

C. Cost of Sales

"Cost of sales" was assumed to include two cost categories: payroll and material costs. To generate the amounts for each of these categories, data from the Bureau of Labor Statistics was used in conjunction with data from the SBA. The data and assumptions for each industry are set out in detail below.

D. Financing

Financing was assumed to take two forms:

1. Debt service is included in the RMA category "operating expense" and "miscellaneous expense". This method of accounting for these expenses does not allow for detailed tax treatment but involved fewer additional assumptions concerning the characteristics of the particular firm. (The SBA data does not include information concerning the debt position of the firms.)

2. Equipment costs were assumed to be financed from equity. Such investments were assumed to be relatively small (based on information from RMA studies). These investments receive an additional Investment Tax Credit (ITC) in the enterprise zone case.

E. Skill Level Ratios

The skill level ratios for each industry were based on Bureau of Labor Statistics (BLS) publications produced as part of the Occupation Employment Statistics (OES) Program. The BLS surveys cover three-digit SIC codes and were completed in 1979 and 1980 (the survey for SIC #275 remained unpublished as of 9/10/82). They provide a percentage breakdown for job classifications within each of the industries that were studied, Exhibit A-4 provides a summary of the relevant findings.

The BLS results were regrouped into four skill-level categories: lowest, unskilled and trainee positions; low, including semiskilled, some clerical, and apprentice positions; skilled, production and technical workers; and, professional, including managers, professionals and some sales personnel. The BLS surveys were used as guidelines in assigning certain percentages of employees to each of the skill levels. The small and large firms within an industry were assumed to have the same percentage of employees at each skill level.

F. Breakdown of 'Cost of Sales'

This study involves an attempt to generate realistic financial and operating figures from sample and survey data, while also allowing for inter- and intra- industry comparisons. In order to do this, certain assumptions had to be made in the allocation of the cost of sales between material costs and payroll costs. Since the majority of enterprise zone credits involves wage credits, the allocation of payroll costs was considered as basic, with material costs accounting for the residual.

In order to determine payroll costs, statistics from the Bureau of Labor Statistics and the Bureau of Census were used as guidelines; each industry was then considered separately. For instance, in the wholesale industry (#5087), the 1977 payroll as a percent of sales is approxiamtely 12.6%. However, the range among types of wholesalers in this industry is between 4% and 15% (1977 Census of Wholesale Trade, U.S. Department of Commerce, Bureau of the Census). If this overall percentage is applied to the sample data provided by the SBA, the payroll for the 'average' small firm in this industry amounts to $9,000 per employee, while that of the large firm is over $16,000. This occurs because the large firm generates 8 times the sales of the small firm but has only 4-1/4 times the employees. In order to resolve these differences, it was assumed that the large firm has a higher percentage of material costs than the small firm (possibly the larger wholesaler handles more expensive equipment that has a lower markup). Some justification for this assumption is found in examining the Bureau of Census figures for 1977 where the average salary in this industry was $12,000.

For the restaurant industry the problem is somewhat different. The large firm generates only three times the volume of sales but requires four times as many workers as the average small firm. In this case, payroll was treated as a fixed percentage--the industry average payroll of 25% of sales (1977, Bureau of the Census, Industry Survey) was applied to both firms. Part of the justification for this consists of the fact that the larger establishment is able to generate a higher markup on its material costs; hence, they constitute a lower percentage of its total costs.

In the manufacturing industry (#2751), the large firm generates 7.7 times the sales of the small one with only 6 times as many employees. The ratios derived from the 1977 Census of Manufactures' (Bureau of the Census) appeared reasonable for the large firm, but less so for the smaller one. As with the wholesale industry, the industry average wage was used as a basis for adjusting the percentage of sales devoted to payroll by the smaller firm, and as a guideline for evaluating the computation for the large firm.

G. Salaries

Given the payroll levels for each industry and the number of employees in each skill level, the calculation of salaries involves allocating the payroll among skill levels and individuals. It was assumed that everyone in a given firm and at a given skill level would receive the same level of compensation. For each industry different assumptions were required, both to allow for assumptions previously made and to reflect the nature of the industry.

As the starting date of the analysis is assumed to be 1981 and the most recent salary data is from 1977, it was first necessary to adjust the average salaries to reflect 1981 figures. This involved determining how much of the 50.2 point (1977-1981) rise in the consumer price index (CPI-W) workers in a particular industry were likely to capture, computing average salaries, and then allocating that amount among the various skill levels.

For example, it was assumed that workers in the large wholesale firm (with a greater sales/employee ratio) would capture more of the CPI-W increase. The amount captured by employees of the large firm was assumed to be 75% of the 50.2 CPI-W increase, as opposed to 60% for the small firm. This means that the average salary in the wholesale industry would be $16,628 for a small firm, and $17,613 for a large firm. Details for each firm are provided in Exhibit A-5.

H. Investments

The only investment assumed for this study is an initial investment in equipment that is financed from equity. In each case this investment was computed by using the Robert Morris Associates (RMA) 'Annual Statement Studies--'81' sales/net fixed assets ratio. While this ratio does not reflect the true investment made by a new business, it does provide a basis for assessing the incremental effects of the enterprise zone incentives.

I. State Taxation

Connecticut and Florida both have a state income tax calculated as a percentage of federal taxable income. For purposes of this study state taxes were calculated without FICA or depreciation deductions. In Connecticut the corporate tax rate is 10%; however, deductions similar to those allowed for federal tax purposes are available. The Florida corporate tax rate is 5%. This rate is applied to earnings after allowing for a standard $5,000 deduction.

J. Other Financial and Operating Assumptions

1. Sales growth -- 25% for the first four years (16% real growth X 8% inflation); 8% thereafter (0% real growth and 8% inflation).
2. Materials cost -- increases at the assumed rate of inflation, 8% per annum.
3. Other expenses and operating expenses -- 16% per annum for the first four years; 8% thereafter.
4. Employment growth -- increases at 4% per annum for the first four years, then remains constant.
5. Salary growth -- increases at the assumed rate of inflation, 8% per annum.
6. Investment -- made only in the initial year, financed from equity. No loans are assumed (or rather, debt service is assumed as part of 'operating and miscellaneous expenses').
7. F.I.C.A. -- assumed to remain constant at 7.2% of payroll.
8. Property Taxes--for Connecticut a tax rate of $70 per $1000 was used. This rate was based on a survey of _Moody's Municipal and Government Manual for 1982_. In Florida, the property tax credit applies only to school

district assessments. The Dade County school district assessment rate of $6.75 per $1,000 was used. For both cases, real property (i.e., the initial investment in equipment) was assumed to lose 5% of its initial value per year.

9. City Taxes -- none were assumed.

10. Investment tax Credits -- all equipment investments received a 10% federal income tax credit; however, the enterprise zone cases receive an additional 5% credit.

K. Enterprise Zone Incentives

1. State of Connecticut

a. Manufacturers

(1) A $1000 grant for each new job created in the designated area provided that 30% of the new employees are either residents of the zone or residents of the municipality and CETA eligible. (Fractional jobs were not considered as qualifying for this incentive.)

(2) A 50% tax credit in the state corporate business tax for ten years (provided the above eligibility requirements are met.)

(3) An 80% abatement of local property taxes for five years. This abatement takes the form of a freeze on the property tax assessment for the firm, with the state reimbursing the municipality for 75% of the lost tax revenue.

b. Non-manufacturers

Non-manufacturing firms can qualify for an abatement of local property taxes according to the following schedule:

(1) Years 1 & 2: 100% of any increased assessment is deferred.

(2) Years 3 through Year 7, the percentage deferred decreases from 50% in 10% steps (e.g., Year 3--50%; Year 4--40%).

2. State of Florida

a. A twelve month, 25% state income tax credit for each new job created in a designated area and filled by a resident of that area. The credit is added back to state income in the year it is earned, but it may be carried forward for up to 5 years. The maximum credit per new job is $4,500.

It was assumed that all workers qualified for this credit. It was also assumed that firms in the enterprise zone would make full use of the credits--for instance, if someone quit a position, that position would be filled by another person meeting the requirements for the firm to receive the wage credit.

b. Firms located in designated areas also qualify for a 96% property tax credit. This is computed by multiplying the firm's school-related property tax by 96%, adding this back to other taxable income, and substracting it from state income taxes that are due. As mentioned, this credit is added back the year it is earned, but it may be carried forward for up to 5 years.

3. Federal Incentives

a. Firms locating or expanding in an enterprise zone qualify for a 10% wage credit for all increases in salary generated by their business after an area is designated as an enterprise zone. The maximum credit per worker is $1,500. The credit is not added back, and it may be carried forward. The credit is assumed to apply for the duration of the study period.

b. A second federal wage credit is available to firms that employ 'disadvantaged' workers in positions that qualify for the 10% tax credit mentioned above. This credit provides a wage credit of 50% for the first three years, declining to 0%, in 10% increments, during the next four years. This credit is also not added back and it may be carried forward.

For purposes of this study, it was assumed that firms would qualify for the first form of tax credit for all employees; however, it was assumed that only workers in the lowest skill-level would qualify for the 'disadvantaged' credit (except in the restaurant industry where 50% of the skill level designated as "low" were also assumed to qualify). Further, it was assumed that employers would be able to make maximum use of this credit within the restrictions mentioned above -- persons no longer qualifying for 'disadvantaged' credits are assumed to be replaced with workers who do qualify.

c. Investment Tax Credits -- as mentioned previously, the only investment considered in this study was an initial equipment investment. This qualifies for a special 5% credit if it is purchased in order to do business in an enterprise zone.

Exhibit A-1

APPLICATION OF ROBERT MORRIS ASSOCIATES "ANNUAL STATEMENTS STUDIES" TO SBA DATA

SIC #2751*		$0-1 Million Assets	$1-10 Million Assets
1)	Cost of Sales	63.8%	72.1%
2)	Gross Profit	36.2	27.9
3)	Operating expenses	29.6	22.3
4)	Operating Profit	6.6	5.6
5)	Other expenses	1.3	1.6
6)	Profit before taxes	5.3	4.0
7)	Employees	7	42
8)	Sales	$259,000	$2,000,000
9)	Cost of sales (1x8)	$165,242	$1,442,000
10)	Payroll	-	-
11)	Materials	-	-
12)	Operating expenses (3x8)	$76,664	$446,000
13)	Other expenses (5x8)	$3,367	$32,000
14)	Profit before taxes (6x8)	$13,727	$80,000

*Manufacturing Industry: Commercial Printing

CALCULATION OF THE BREAKDOWN FOR COST OF SALES

Industry Statistics: (U.S. Dept. of Commerce: 1977 Census of Manufacturers)

Assets 1977	$0-1 Million	$1- 10 Million
(1) total payroll (millions $):	$539.4	$1,865.0
(2) production worker payroll (Millions $):	$316.4	$1,061.8
(3) materials cost (Millions $):	$649.6	$2,143.5
2/1 (production payroll as % of total payroll	.587	.569
[1-2]/1 (non production payroll as % of total payroll)	.413	.431
3/[3+1] x 100 (materials cost as a % of "cost of sales")	$\frac{649.6}{1,189}$ = 54.6%	$\frac{2143.5}{4008.5}$ = 53.4%
Materials (as % of cost of sales)	54.6	53.4
Salaries (as % of cost of sales)	45.4	46.6

Exhibit A-2

APPLICATION OF ROBERT MORRIS ASSOCIATES "ANNUAL STATEMENT STUDIES" TO SBA DATA

SIC #5087*

	$0-1 million asset firms				$1 - 10 million asset firms			
				Average(1)				Average (1)
1) Cost of Sales	64.0%(1)	65.8%(2)	66.8(3)	= 65.5%	63.3%(1)	68.7%(2)	70.2%(3)	= 67.4%
2) Gross Profit	36.0	34.2	33.2	= 34.5	36.7	31.3	29.8	= 32.6
3) Operating expenses	32.3	31.1	29.2	= 30.9	33.8	27.2	27.3	= 29.4
4) Operating Profit	3.8	3.2	4.0	= 3.6	2.9	4.1	2.6	= 3.2
5) Other expenses	.6	.7	.6	= .6	.4	.9	.0	= .4
6) Profit before taxes	3.1	2.5	3.4	= 3.0	2.5	3.2	2.6	= 2.8

	$0 - 1 million	$1 - 10 million
7) Employees	6	25
8) Sales	$440,396	$3,274,805
9) Cost of sales (1x8)	$288,459	$2,207,219
10) Payroll	-	-
11) Materials	-	-
12) Operating expenses (3x8)	$136,082	$962,793
13) Other expenses (5x8)	$2,642	$6,550
14) Profit before taxes (6x8)	$13,219	$98,244

*Wholesale Industry: Service Industry Supplies

(1) These averages represent three facets of this industry; (1)beauty and barber products and equipment; (2)janitorial supplies; and, (3)laundry and dry cleaning equipment and supplies.

Exhibit A-3

APPLICATION OF ROBERT MORRIS ASSOCIATES "ANNUAL STATEMENTS STUDIES" TO SBA DATA

SIC #5812*		$0-1 Million Assets	$1-10 Million Assets
1)	Cost of Sales	45.2%	47.3%
2)	Gross Profit	54.8	52.7
3)	Operating expenses	50.0	48.3
4)	Operating Profit	4.8	4.4
5)	Other expenses	1.9	.2
6)	Profit before taxes	2.9	4.2
7)	Employees	10	40
8)	Sales	$250,000	$753,657
9)	Cost of sales (1x8)	$113,000	$356,480
10)	Payroll	-	-
11)	Materials	-	-
12)	Operating expenses (3x8)	$125,000	$364,016
13)	Other expenses (5x8)	$4,750	$1,507
14)	Profit before taxes (6x8)	$7,250	$31,654

*Retail Industry: Restaurants

Exhibit A-4

SKILL LEVEL BREAKDOWN (1) AS A PERCENT OF TOTAL EMPLOYMENT

Position	Commercial Printing SIC #275 (2)	Machinery & Equipment Supplies SIC #508	Restaurants SIC #5812
Managers & Officers	10.1%	8.72%	6.88%
Professional Occupations	2.6	5.93	.61
Technical Occupations	.8	5.56	.01
Service Occupations	1.4	1.82	86.02
Production Workers	65.4	29.30	.67
- Semi Skilled (3)	(1.7)	(1.7)	(.11)
- Laborers & Unskilled	(2.7)	(1.43)	(.12)
Clerical	15.1	25.83	4.68
Sales	4.7	22.33	1.13
Totals(4)	100.1%	99.99%	100.0%

(1) Adapted from Bureau of Labor Statistics Occupational Employment Statistics Program

(2) Results of this survey were unpublished as of 9-10-82.

(3) Subgroup of Production Workers, these numbers do not contribute to totals.

(4) Totals may not add to 100% due to rounding.

Exhibit A-5

1981 AVERAGE SALARY COMPUTATION

SIC #: Industry:	2751 Manufacturer: Printing		5087 Wholesaler: Supplies		5812 Retailer: Restaurant	
Asset Size: ($ millions)	0-1	1-10	0-1	1-10	0-1	1-10
'77 Average Annual Earnings:	$12,841	$12,841	$12,791	$12,791	$4,101	$4,101
'77-'81 CPI-W Increase:	50.2	50.2	50.2	50.2	50.2	50.2
Percent Captured by workers:	60%	75%	60%	75%	60%	50%
Percent Earnings Increase:	30%	37.7%	30%	37.7%	30%	25%
'81 Average Annual Earnings:	$16,693	$17,682	$16,628	$17,613	$5,331	$5,126

Percentage of Average Annual Salary Allocated By Skill Level

SIC #:	2751	5087	5812
Skill Level:			
Lowest	50%	50%	50%
Low	70%	75%	70%
Skilled	110%	125%	230%
Professional	130%	155%	290%

APPENDIX B

CASH FLOWS SUMMARIES

APPENDIX B: CONTENTS

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Explanation of Tables	B-1 and B-2
Connecticut: Calculation of State Incentives for Manufacturing Firms*	B-3 and B-4
Florida: Calculation of State Incentives for All Firms	B-5 thru B-10
Florida: Computer Printouts of Cash Flows**	B-11 thru B-22

* Non-manufacturing firms in Connecticut were not included as they only receive the property tax incentives.

** Computer printouts for Connecticut were not included as they resemble those provided for Florida.

Appendix B: Explanation of Tables

Tables B1-B2: Connecticut Manufacturing Firms

These tables provide a reconstruction of the EZ tax and benefit calculations used to modify the base case cash flows. Line 1 through line 5 represent the recalculation of the basic state tax given the "new jobs grant" incentive; the result is entered on line 6. Line 7 represents the income tax credit provided in Connecticut's enterprise zone legislation. Line 3 is the state tax due after all enterprise zone incentives have been calculated. Line 9 is the state tax that would be incurred by the firm if no EZ incentives were available (this is the same as line 6 except when either of the following occurs: capital losses reduce the tax to the $250 minimum or benefits from the new jobs grant - line 2 - increase the firm's tax base). Line 10 represents the state tax savings realized by the firm after taking into account the 'new jobs grant' and the 'income tax reduction' incentives. A decrease in state taxes results in increased federal taxes; the amount of this increase is entered in line 11 and is based on the highest marginal federal tax rate to which the firm is subject. Line 12 represents the state tax savings -- line 10 minus the increased federal taxes listed in line 11. Line 13 represents the property tax savings (net of federal and state taxes) provided to the firm by the property tax incentive. Line 16 is the total of lines 2, 12 and 15; this represents the final EZ cash flow.

Tables B3 - B8: Florida, All Industries

In line 1 through line 6 the job and business credits are added back to taxable income for the year in which they are earned. Line 7 is the state tax for which the firm is liable, this amount is then reduced by the available credits as specified in line 8 and line 9. Line 10 represents the firm's new state tax bill. When this is subtracted from line 11, the resulting amount - line 12 - is the state tax savings provided by the Florida enterprise zone incentives. This amount is then adjusted by the increased federal tax - line 13 - with the total tax savings entered in line 14. Line 15 provides the base case cash flow, and line 16 is the cash flow with federal EZ incentives. Adding line 14 to line 16 results in line 17, the final EZ cash flow including both Federal and Florida EZ incentives. Line 18 through line 20 provide an accounting for state tax credits as they are earned, used and carried forward.

Exhibit B-1

CONNECTICUT

STATE TAX INCENTIVE CALCULATION: FIRM #2751 ($0-1 million assets)
($000's)

Year	1	2	3	4	5	6	7	8	9	10
1) Taxable Income	13.72	39.74	75.40	124.36	134.31	145.06	156.66	169.19	182.73	197.35
2) New Employee Grant	0	7.0	0	0	0	0	0	0	0	0
3) Subtotal:	13.72	46.74	75.40	123.36	134.31	145.06	156.66	169.19	182.73	197.35
4) Less Property Tax	(.57)	(.54)	(.51)	(.49)	(.47)	(2.22)	(2.11)	(2.01)	(1.92)	(1.83)
5) Subtotal: Taxable Income	13.15	46.20	74.89	123.87	133.84	142.84	154.55	167.18	180.81	195.52
6) State Tax Due	1.31	4.62	7.49	12.39	13.38	14.28	15.45	16.72	18.08	19.55
7) Less 50% Credit	(.65)	(2.31)	(3.75)	(6.19)	(6.69)	(7.14)	(7.72)	(8.36)	(9.04)	(9.77)
8) Net State Tax Due (6-7)	.66	2.31	3.74	6.20	6.69	7.14	7.73	8.36	9.04	9.78
9) State Tax w/o Incentives(1)	1.09	3.70	7.49	12.39	13.38	14.28	15.45	16.72	18.08	19.55
10) Change in State Tax Liability (9-8)	.43	1.39	3.75	6.19	6.69	7.14	7.72	8.36	9.04	9.77
11) Addition to Federal Taxes	0	0	.71	2.48	2.68	3.28*	3.55*	3.85*	4.16*	4.49*
12) Net Tax Position (10-11)	.43	1.39	3.04	3.71	4.01	3.86	4.17	4.51	4.88	5.28
13) Net Savings Attributable to Property Tax Incentive	2.04	1.95	1.11	.96	.91	0	0	0	0	0
14) Base Case Cash Flow	(39.12)	23.89	49.27	75.84	80.70	81.67	86.76	92.25	98.17	104.56
15) EZ Cash Flow(2)	(37.08)	25.84	56.79	99.57	107.59	107.11	99.33	104.22	110.04	116.43
16) EZ Cash Flow(3) (2 + 12 + 15)	(36.65)	34.23	59.83	103.28	111.60	110.97	103.50	108.73	114.92	121.71

* Denotes years in which federal tax liability is positive.

(1) These Figures include the EZ property tax incentive.

(2) Cash Flow including Federal incentives with lowered property tax.

(3) Cash Flow including all incentives.

Exhibit B-2

CONNECTICUT

STATE TAX INCENTIVE CALCULATION: FIRM #2751 ($0-1 million assets)

($000's)

Year	1	2	3	4	5	6	7	8	9	10
1) Taxable Income	115.42	245.07	421.74	660.68	713.54	770.62	832.27	898.85	970.76	1,048.42
2) New Employee Grant	0	42.0	1.00	1.00	1.00	0	0	0	0	0
3) Subtotal	115.42	287.07	422.74	661.68	714.54	770.62	832.27	898.85	970.76	1,048.42
4) Less Property Tax	(5.09)	(4.85)	(4.62)	(4.40)	(4.19)	(19.94)	(18.99)	(18.09)	(17.23)	(16.41)
5) Subtotal: Taxable Income	110.33	282.22	418.12	657.28	710.35	750.07	813.28	880.76	953.53	1,032.01
6) State Tax Due	11.03	28.22	41.81	65.72	71.03	75.07	81.33	88.08	95.35	103.20
7) Less 50% Credit	(5.52)	(14.11)	(20.90)	(32.86)	(35.51)	(37.53)	(40.66)	(44.04)	(47.67)	(51.60)
8) Net State Tax Due (6-7)	5.51	14.11	20.91	32.86	35.52	37.54	40.67	44.04	47.68	51.60
9) State Tax Without Incentives[(1)]	9.00	22.08	41.71	65.63	70.93	75.07	81.33	88.08	95.35	103.20
10) Change in State Tax Liability (9-8)	3.49	7.97	20.80	32.77	35.41	37.53	40.66	44.04	47.67	51.60
11) Addition to Federal Tax	0	0	9.57	15.07	16.27*	17.26*	18.70*	20.26*	21.93*	23.74*
12) Net Tax Position (10-11)	3.49	7.97	11.23	17.70	19.14	20.27	21.96	23.78	25.74	27.86
13) Net Savings Attributable to Property Tax Incentive	18.33	17.45	8.99	8.56	8.15	0	0	0	0	0
14) Base Case	(314.46)	163.44	246.07	341.27	365.55	356.53	384.71	415.09	447.83	483.15
15) EZ Cash Flow[(2)]	(296.13)	180.89	335.76	546.13	503.36	436.40	461.04	487.12	519.36	554.28
16) EZ Cash Flow[(3)] (2 + 12 + 15)	(292.64)	230.86	347.99	564.83	523.50	456.73	483.00	510.90	541.29	582.14

* Denotes years in which federal tax liability is positive.

(1) These figures include the state EZ property tax incentive.

(2) Cash flow including federal incentives with lowered property tax.

(3) Cash flow including all incentives.

Exhibit B-3

FLORIDA

STATE TAX INCENTIVE CALCULATION: FIRM # 2751 ($0-1 million assets)
($000's)

Year	1	2	3	4	5	6	7	8	9	10
1) Taxable Income: State	13.72	39.74	75.40	124.36	134.31	145.06	156.66	169.19	182.73	197.35
2) Add back job credits	23.97	1.14	1.20	1.26	0	0	0	0	0	0
3) Add back business credit	.26	.25	.24	.23	.22	.21	.20	.19	.18	.17
4) Subtotal: taxable income	37.95	41.13	76.84	125.85	134.53	145.27	156.86	169.38	182.91	197.52
5) Less state exemption	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
6) Net taxable income: state	32.95	36.13	71.84	120.85	129.53	140.27	151.86	164.38	177.91	192.52
7) State Tax	1.65	1.81	3.59	6.04	6.48	7.01	7.59	8.22	8.90	9.63
8) Less job credits used	(1.39)	(1.56)	(3.35)	(5.81)	(6.26)	(6.80)	(2.40)	0	0	0
9) Less business credits used	(.26)	(.25)	(.24)	(.23)	(.22)	(.21)	(.20)	(.19)	(.18)	(.17)
10) Net state tax due	0	0	0	0	0	0	4.99	8.03	8.72	9.46
11) State tax before credits	.44	1.74	3.52	5.97	6.47	7.00	7.58	8.21	8.89	9.62
12) Change in tax liability (11-10)	.44	1.74	3.52	5.97	6.47	7.00	2.59	.18	.17	.16
13) Addition to federal taxes (1)	0	0	0	0	0	3.22*	1.19*	.08*	.08*	.07*
14) Net tax position (12-13)	.44	1.74	3.52	5.97	6.47	3.78	1.40	.10	.09	.09
15) Base Case	(35.90)	28.30	52.70	80.90	85.63	86.68	92.04	97.83	104.07	110.82
16) Cash flow w/o state credits	(35.90)	28.30	61.02	106.24	114.75	104.56	104.61	109.80	115.94	122.69
17) Final EZ cash flow	(35.46)	30.04	64.54	112.21	121.22	108.34	106.01	109.90	116.03	122.78
18) State Credits Available (2)	24.23	23.97	23.60	21.50	15.68	9.41	2.60	.19	.18	.17
19) Credits Taken	1.65	1.81	3.59	6.04	6.48	7.01	2.60	.19	.17	.17
20) Credits Carried Forward	22.58	22.16	20.01	15.46	9.20	2.40	0	0	0	0

* denotes years in which federal tax liability is positive.

(1) assumes the amount added to federal taxable income (due to a decrease in state taxes) is taxed as the last increment (i.e. at highest marginal rate to which the business is subject).

(2) includes carryforward credits (subject to five year limitation).

Exhibit B-4

FLORIDA

STATE TAX INCENTIVE CALCULATION: FIRM # 2751 ($1-10 million assets)

($000's)

Year	1	2	3	4	5	6	7	8	9	10
1) Taxable Income: State	115.42	245.07	421.74	660.68	713.54	770.62	832.27	898.85	970.76	1048.42
2) Add back job credits	169.48	6.89	7.28	7.73	0	0	0	0	0	0
3) Add back business credit	2.35	2.25	2.14	2.04	1.94	1.84	1.76	1.67	1.59	1.52
4) Subtotal: taxable income	287.25	254.21	431.16	670.45	715.48	772.46	834.03	900.52	972.35	1049.94
5) Less state exemption	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
6) Net taxable income: state	282.25	249.21	426.16	665.45	710.48	767.46	829.03	895.52	967.35	1044.94
7) State Tax	14.11	12.46	21.31	33.27	35.52	38.37	41.45	44.78	48.37	52.25
8) Less job credits used	(11.76)	(10.21)	(19.17)	(31.23)	(33.58)	(36.53)	(32.11)	(0)	(0)	(0)
9) Less business credits used	(2.35)	(2.25)	(2.14)	(2.04)	(1.94)	(1.84)	(1.76)	(1.67)	(1.59)	(1.52)
10) Net state tax due	0	0	0	0	0	0	7.58	43.11	46.78	50.73
11) State tax before credits	5.52	12.00	20.84	32.78	35.43	38.28	41.36	44.69	48.29	52.17
12) Change in tax liability (11-10)	5.52	12.00	20.84	32.78	35.43	38.28	33.78	1.58	1.51	1.44
13) Addition to federal taxes (1)	0	0	0	0	16.30*	17.61*	15.54*	.73*	.69*	.66*
14) Net tax position (12-13)	5.52	12.00	20.84	32.78	19.13	20.67	18.24	.85	.82	.78
15) Base Case	(287.98)	195.08	248.78	368.79	394.03	386.13	415.56	447.34	481.66	518.71
16) Cash flow w/o state credits	(287.98)	195.42	359.02	581.25	488.86	466.06	491.89	519.37	553.19	589.84
17) Final EZ cash flow	(282.46)	207.42	379.86	614.03	507.99	486.73	510.13	520.22	554.01	590.62
18) State Credits Available (2)	171.83	166.86	163.82	152.28	120.95	87.27	33.78	1.67	1.59	1.52
19) Credits Taken	14.11	12.46	21.31	33.27	35.52	38.37	33.78	1.67	1.59	1.52
20) Credits Carried Forward	157.72	154.40	142.51	119.01	85.43	48.90 (3)	0	0	0	0

* denotes years in which federal tax liability is positive.

(1) assumes the amount added to federal taxable income (due to a decrease in state taxes) is taxed as the last increment (i.e. at highest marginal rate to which the business is subject).

(2) includes carryforward credits (subject to five year limitation).

(3) only 32.11 qualifies for carryforward.

Exhibit B-5

FLORIDA

STATE TAX INCENTIVE CALCULATION: FIRM # 5087 ($0-1 million assets)

($000's)

Year	1	2	3	4	5	6	7	8	9	10
1) Taxable Income State	12.97	42.27	82.28	137.06	148.03	159.87	172.66	186.47	201.39	217.50
2) Add back job credits	22.11	.91	.99	1.01	0	0	0	0	0	0
3) Add back business credit	.45	.43	.40	.39	.37	.35	.33	.32	.30	.29
4) Subtotal: taxable income	35.53	43.61	83.67	138.46	148.40	160.22	172.99	186.79	201.69	217.79
5) Less state exemption	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
6) Net taxable income: state	30.53	38.61	78.67	133.46	143.40	155.22	167.99	181.79	196.69	212.79
7) State Tax	1.53	1.93	3.93	6.67	7.17	7.76	8.40	9.09	9.83	10.64
8) Less job credits used	(1.08)	(1.50)	(3.53)	(6.28)	(6.80)	(6.83)	0	0	0	0
9) Less business credits used	(.45)	(.43)	(.40)	(.39)	(.37)	(.35)	(.33)	(.32)	(.30)	(.29)
10) Net state tax due	0	0	0	0	0	.58	8.07	8.77	9.53	10.35
11) State tax before credits	.40	1.86	3.86	6.60	7.15	7.74	8.38	9.07	9.82	10.63
12) Change in tax liability (11-10)	.40	1.86	3.86	6.60	7.15	7.16	.31	.30	.29	.28
13) Addition to federal taxes (1)	0	0	0	0	3.29*	3.29*	.14*	.14*	.13*	.13*
14) Net tax position (12-13)	.40	1.86	3.86	6.60	3.86	3.87	.17	.16	.16	.15
15) Base Case	(63.88)	31.90	63.90	91.14	96.34	95.30	101.36	107.90	114.97	122.59
16) Cash flow w/o state credits	(63.88)	31.90	68.93	119.90	128.42	107.46	112.67	118.21	125.23	132.76
17) Final EZ cash flow	(63.48)	33.76	72.79	126.50	132.28	111.33	112.84	118.37	125.39	132.91
18) State Credits Available (2)	22.56	23.37	22.83	20.30	14.00	7.18	.33	.32	.30	.29
19) Credits Taken	1.53	1.93	3.93	6.67	7.17	7.18	.33	.32	.30	.29
20) Credits Carried Forward	22.03	21.44	18.90	13.63	6.83	0	0	0	0	0

* denotes years in which federal tax liability is positive.

(1) assumes the amount added to federal taxable income (due to a decrease in state taxes) is taxed as the last increment (i.e. at highest marginal rate to which the business is subject).

(2) includes carryforward credits (subject to five year limitation).

Exhibit B-6

FLORIDA

STATE TAX INCENTIVE CALCULATION: FIRM # 5087 ($1-10 million assets)

($000's)

	Year	1	2	3	4	5	6	7	8	9	10
1)	Taxable Income State	97.13	269.43	504.51	826.54	892.67	964.08	1041.21	1124.51	1214.47	1311.62
2)	Add back job credits	94.23	3.90	4.19	4.51	0	0	0	0	0	0
3)	Add back business credit	3.86	3.68	3.50	3.33	3.17	3.02	2.88	2.74	2.61	2.49
4)	Subtotal: taxable income	195.22	277.01	512.20	834.38	895.84	967.10	1044.09	1127.25	1217.08	197.52
5)	Less state exemption	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
6)	Net taxable income: state	190.22	272.01	507.20	829.38	890.84	962.10	1039.09	1122.25	1212.08	1309.11
7)	State Tax	9.51	13.60	25.36	41.47	44.54	48.11	51.95	56.11	60.60	65.46
8)	Less job credits used	(5.65)	(9.92)	(21.86)	(38.14)	(31.26)	0	0	0	0	0
9)	Less business credits used	(3.86)	(3.68)	(3.50)	(3.33)	(3.17)	(3.02)	(2.88)	(2.74)	(2.61)	(2.49)
10)	Net state tax due	0	0	0	0	0	45.09	49.07	53.37	57.99	62.97
11)	State tax before credits	4.61	13.22	24.98	41.08	44.38	47.95	51.81	55.98	60.47	65.33
12)	Change in tax liability (11-10)	4.61	13.22	24.98	41.08	34.27	2.86	2.74	2.61	2.48	2.36
13)	Addition to federal taxes (1)	0	0	0	18.90*	15.76*	1.32*	1.26*	1.20*	1.14*	1.09*
14)	Net tax position (12-13)	4.61	13.22	24.98	22.18	18.51	1.54	1.48	1.41	1.34	1.27
15)	Base Case	(538.61)	216.79	362.48	475.27	507.36	484.49	521.85	562.19	605.81	652.85
16)	Cash flow w/o state credits	(538.61)	216.79	435.94	640.38	561.36	535.69	569.45	605.49	648.61	695.25
17)	Final EZ cash flow	(534.00)	230.01	460.92	662.56	579.87	537.23	570.93	606.90	649.95	696.52
18)	State Credits Available (2)	98.09	96.16	90.25	72.73	34.43	3.02	2.88	2.74	2.61	2.49
19)	Credits Taken	9.51	13.60	25.36	41.47	34.43	3.02	2.88	2.74	2.61	2.49
20)	Credits Carried Forward	88.58	82.56	64.89	31.26	0	0	0	0	0	0

* denotes years in which federal tax liability is positive.

(1) assumes the amount added to federal taxable income (due to a decrease in state taxes) is taxed as the last increment (i.e. at highest marginal rate to which the business is subject).

(2) includes carryforward credits (subject to five year limitation).

Exhibit B-7

FLORIDA

STATE TAX INCENTIVE CALCULATION: FIRM # 5812 ($0-1 million assets)

($ 000's)

	Year	1	2	3	4	5	6	7	8	9	10
1)	Taxable Income: State	6.97	27.66	56.12	95.73	103.38	111.66	120.59	130.24	140.65	151.91
2)	Add back job credits	13.33	.58	.64	.67	0	0	0	0	0	0
3)	Add back business credit	.08	.08	.08	.07	.07	.07	.06	.06	.06	.05
4)	Subtotal: taxable income	20.38	28.32	56.84	96.47	103.45	111.73	120.65	130.30	140.71	151.96
5)	Less state exemption	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
6)	Net taxable income: state	15.38	23.32	51.84	91.47	98.45	106.73	115.65	125.30	135.71	146.96
7)	State Tax	.80	1.17	2.59	4.57	4.92	5.34	5.78	6.27	6.79	7.35
8)	Less job credits used	(.72)	(1.09)	(2.51)	(4.50)	(4.85)	(1.62)	0	0	0	0
9)	Less business credits used	(.08)	(.08)	(.08)	(.07)	(.07)	(.07)	(.06)	(.06)	(.06)	(.05)
10)	Net state tax due	0	0	0	0	0	3.65	5.72	6.21	6.73	7.30
11)	State tax before credits	.10	1.13	2.56	4.54	4.92	5.33	5.78	6.26	6.78	7.35
12)	Change in tax liability (11-10)	.10	1.13	2.56	4.54	4.92	1.68	.06	.05	.05	.05
13)	Addition to federal taxes (1)	0	0	0	0	0	0	0	.02*	.02*	.02*
14)	Net tax position (12-13)	.10	1.13	2.56	4.54	4.92	1.68	.06	.03	.03	.03
15)	Base Case	(10.08)	20.21	40.66	66.25	70.36	73.70	78.20	82.68	87.70	93.13
16)	Cash flow w/o state credits	(10.08)	22.15	48.63	85.68	92.53	99.92	107.90	92.21	96.90	102.43
17)	Final EZ cash flow	(9.98)	23.28	51.19	90.22	97.45	101.60	107.96	92.24	96.93	102.46
18)	State Credits Available (2)	13.41	13.27	12.82	10.97	6.47	1.69	.06	.06	.06	.05
19)	Credits Taken	.80	1.17	2.59	4.57	4.85	1.69	.06	.06	.06	.05
20)	Credits Carried Forward	12.61	12.10	10.23	6.40	1.62	0	0	0	0	0

* denotes years in which federal tax liability is positive.

(1) assumes the amount added to federal taxable income (due to a decrease in state taxes) is taxed as the last increment (i.e. at highest marginal rate to which the business is subject).

(2) includes carryforward credits (subject to five year limitation).

Exhibit B-8

FLORIDA

STATE TAX INCENTIVE CALCULATION: FIRM #5812 ($1-10 million assets)

($000's)

	Year	1	2	3	4	5	6	7	8	9	10
1)	Taxable Income (State)	30.21	98.14	193.25	323.48	349.36	377.31	407.49	440.09	475.30	513.33
2)	Add back Job Credits	51.26	2.21	2.52	2.74	0	0	0	0	0	0
3)	Add back Business Credit	.26	.25	.24	.22	.21	.20	.19	.18	.18	.17
4)	Subtotal: Taxable Income	81.73	100.6	196.01	326.44	349.57	377.51	407.68	440.27	475.48	513.50
5)	Less State Exemption	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
6)	Net Taxable Income (State)	76.73	95.6	191.01	321.44	344.57	372.51	402.68	435.27	470.48	508.50
7)	State Tax	3.84	4.78	9.55	16.07	17.23	18.63	20.13	21.76	23.52	25.43
8)	Less Job Credits used	(3.58)	(4.53)	(9.31)	(15.85)	(17.02)	(8.44)	(0)	(0)	(0)	(0)
9)	Less Business Credits used	(.26)	(.25)	(.24)	(.22)	(.21)	(.20)	(.19)	(.18)	(.18)	(.17)
10)	Net State Tax Due	0	0	0	0	0	9.99	19.94	21.58	23.34	25.26
11)	State Tax Before Credits	1.25	4.64	9.40	15.91	17.21	18.60	20.11	21.75	23.51	25.41
12)	Change in Tax Liability (11-10)	1.25	4.64	9.40	15.91	17.21	8.61	.17	.17	.17	.15
13)	Addition to Federal Tax(1)	0	0	0	0	0	3.96*	.08*	.08*	.08*	.07*
14)	Net Tax Position (12-13)	1.25	4.64	9.40	15.91	17.21	4.65	.09	.09	.09	.08
15)	Base Case	26.23	65.26	112.69	178.32	190.70	200.19	214.63	230.23	247.23	265.25
16)	Cash Flow Without State Credits	(26.23)	76.58	164.93	286.47	309.40	283.87	260.93	265.73	282.67	301.55
17)	Final E2 Cash Flow	(24.98)	81.22	174.33	302.38	326.61	288.52	261.02	265.82	282.76	301.63
18)	State Credits Available(2)	51.52	50.14	48.12	41.53	25.67	8.64	.19	.18	.18	.17
19)	Credits Taken	3.84	4.78	9.55	16.07	17.23	8.64	.19	.18	.18	.17
20)	Credits Carried Forward	47.68	45.36	38.57	25.46	8.44	0	0	0	0	0

* denotes years in which federal tax liability is positive.

(1) assumes the amount added to federal taxable income (due to a decrease in state taxes) is taxed as the last increment (i.e., at highest marginal rate to which the business is subject).

(2) includes carryforward credits (subject to five year limitation).

FLORIDA

CASH FLOW SCHEDULE	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CASH IN										
EZ ACC PROFIT AFTER INT.&DEP. INCL. CAP GAINS BEFORE TAXES	9.67	35.69	71.35	120.31	130.26	141.01	152.61	165.14	178.68	193.30
DEPRECIATION	4.05	4.05	4.05	4.05	4.05	4.05	4.05	4.05	4.05	4.05
LOANS RAISED:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	13.72	39.74	75.40	124.36	134.31	145.06	156.66	169.19	182.73	197.35
CASH OUT										
INVESTMENT	40.50	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN PRINCIPAL REPAYMENTS:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
TOTAL TAXES PAID	9.12	11.44	22.70	43.46	48.68	50.37	64.62	71.36	78.64	86.53
OF WHICH:-										
FICA	8.41	9.45	10.61	11.91	12.86	13.89	15.00	16.20	17.50	18.90
PROPERTY TAXES	.27	.26	.25	.24	.23	.21	.20	.19	.19	.18
CITY TAXES	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
INCREMENTAL:-										
STATE	.44	1.74	3.52	5.97	6.47	7.00	7.58	8.21	8.89	9.62
FEDERAL	.00	.00	8.32	25.35	29.12	37.27	41.83	46.76	52.08	57.83
	49.62	11.44	22.70	43.46	48.68	50.37	64.62	71.36	78.64	86.53
NET CASH FLOW	-35.90	28.30	52.70	80.90	85.63	86.68	92.04	97.83	104.07	110.82
NET PRESENT VALUES										
DISCOUNT RATE(%)	.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00
NPV'S	703.07	624.79	557.38	499.06	448.38	404.17	365.44	331.39	301.33	274.70

SIC #2751 CASH FLOW
BASE CASE
($0-1 million assets)

FLORIDA

CASH FLOW SCHEDULE	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CASH IN										
EZ ACC PROFIT AFTER INT.&DEP. INCL. CAP GAINS BEFORE TAXES	9.67	35.69	71.35	120.31	130.26	141.01	152.61	165.14	178.68	193.30
DEPRECIATION	4.05	4.05	4.05	4.05	4.05	4.05	4.05	4.05	4.05	4.05
LOANS RAISED:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	13.72	39.74	75.40	124.36	134.31	145.06	156.66	169.19	182.73	197.35
CASH OUT										
INVESTMENT	40.50	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN PRINCIPAL REPAYMENTS:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
TOTAL TAXES PAID	9.12	11.44	14.38	18.12	19.56	40.50	52.05	59.39	66.79	74.66
OF WHICH:-										
FICA	8.41	9.45	10.61	11.91	12.86	13.89	15.00	16.20	17.50	18.90
PROPERTY TAXES	.27	.26	.25	.24	.23	.21	.20	.19	.19	.18
CITY TAXES	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
INCREMENTAL:-										
STATE	.44	1.74	3.52	5.97	6.47	7.00	7.58	8.21	8.89	9.62
FEDERAL	.00	.00	.00	.00	.00	19.39	29.26	34.79	40.21	45.96
	49.62	11.44	14.38	18.12	19.56	40.50	52.05	59.39	66.79	74.66
NET CASH FLOW	-35.90	28.30	61.02	106.24	114.75	104.56	104.61	109.80	115.94	122.69
NET PRESENT VALUES										
DISCOUNT RATE(%)	.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00
NPV'S	832.01	741.42	663.24	595.47	536.47	484.89	439.62	399.74	364.48	333.18

SIC #2751 CASH FLOW
EZ CASE
($0-1 million assets)
(Federal Incentives Only)

FLORIDA

B-13

CASH FLOW SCHEDULE	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CASH IN										
EZ ACC PROFIT AFTER INT.&DEP. INCL. CAP GAINS BEFORE TAXES	79.02	208.67	385.34	624.28	677.14	734.22	795.87	862.45	939.36	1012.02
DEPRECIATION	36.40	36.40	36.40	36.40	36.40	36.40	36.40	36.40	36.40	36.40
LOANS RAISED:- EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	115.42	245.07	421.74	660.68	713.54	770.62	832.27	898.85	975.76	1048.42
CASH OUT										
INVESTMENT	364.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN PRINCIPAL REPAYMENTS:- EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
TOTAL TAXES PAID	39.40	49.90	172.96	291.90	319.51	384.49	416.71	451.91	489.10	529.71
OF WHICH:- FICA	31.43	35.31	39.65	44.53	48.09	51.94	56.09	60.90	65.43	70.66
PROPERTY TAXES	2.45	2.26	2.23	2.21	2.02	1.92	1.83	1.74	1.64	1.58
CITY TAXES	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
INCREMENTAL:- STATE	5.52	12.00	20.84	32.70	35.43	38.28	41.36	44.69	48.29	52.17
FEDERAL	.00	.33	110.24	212.46	233.97	292.35	317.43	344.58	373.73	405.29
	403.40	49.90	172.96	291.90	319.51	384.49	416.71	451.91	489.10	529.71
NET CASH FLOW	-287.98	195.08	248.78	368.79	394.03	386.13	415.56	447.34	486.66	518.71
NET PRESENT VALUES										
DISCOUNT RATE(%)	.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00
NPV'S	3168.11	2807.25	2496.41	2227.46	1993.73	1789.75	1611.02	1453.80	1314.97	1191.95

SIC #2751 CASH FLOW
BASE CASE
($1-10 million assets)

FLORIDA

B-14

SCHEDULE										
CASH IN										
EZ A/C PROFIT AFTER INT.&DEP. INCL. CAP GAINS BEFORE TAXES	79.02	208.67	385.34	624.28	677.14	734.22	795.87	862.45	934.36	1012.02
DEPRECIATION	36.40	36.40	36.40	36.40	36.40	36.40	36.40	36.40	36.40	36.40
LOANS RAISED:- EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	115.42	245.07	421.74	660.68	713.54	770.62	832.27	898.85	970.76	1048.42
CASH OUT										
INVESTMENT	363.70	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN PRINCIPAL REPAYMENTS:- EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
TOTAL TAXES PAID	39.70	49.65	62.72	79.43	224.68	304.56	340.38	379.48	417.87	458.58
OF WHICH:- FICA	31.43	35.31	39.65	44.53	48.09	51.94	56.09	60.58	65.43	70.66
PROPERTY TAXES	2.45	2.34	2.23	2.12	2.02	1.92	1.83	1.74	1.64	1.58
CITY TAXES	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
INCREMENTALS:- STATE	5.82	12.00	20.84	32.78	35.43	38.28	41.38	44.68	48.27	52.17
FEDERAL	.00	.00	.00	.00	139.14	212.42	241.08	272.47	302.53	334.16
	403.40	49.65	62.72	79.43	224.68	304.56	340.38	379.48	417.87	458.58
NET CASH FLOW	-287.98	195.42	359.02	581.25	488.86	466.06	491.89	519.37	553.19	589.84
NET PRESENT VALUES										
DISCOUNT RATE(%)	.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00
NPV'S	3956.92	3524.79	3151.89	2827.80	2545.46	2298.77	2081.84	1890.49	1721.07	1570.81

SIC #2751 CASH FLOW
EZ CASE
($1-10 million assets)
(Federal Incentives Only)

FLORIDA

B-15

CASH FLOW SCHEDULE	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CASH IN										
SI ACC PROFIT AFTER INT.&DEP. INCL. CAP GAINS BEFORE TAXES	6.09	35.39	75.40	130.18	141.15	152.99	165.78	179.59	194.51	210.62
DEPRECIATION	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88
LOANS RAISED:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	12.97	42.27	82.28	137.06	148.03	159.87	172.66	186.47	201.39	217.50
CASH OUT										
INVESTMENT	68.81	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN PRINCIPAL REPAYMENTS:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
TOTAL TAXES PAID	8.04	10.37	18.38	45.92	51.69	64.57	71.30	78.57	86.42	94.91
OF WHICH:-										
FICA	7.19	8.07	9.07	10.16	10.98	11.86	12.80	13.83	14.93	16.13
PROPERTY TAXES	.46	.44	.42	.40	.38	.36	.35	.33	.31	.30
CITY TAXES	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
INCREMENTAL:-										
STATE	.40	1.86	3.86	6.60	7.15	7.74	8.38	9.07	9.82	10.63
FEDERAL	.00	.00	5.03	28.76	33.18	44.61	49.77	55.34	61.36	67.85
	76.85	10.37	18.38	45.92	51.69	64.57	71.30	78.57	86.42	94.91
NET CASH FLOW	-63.88	31.90	63.90	91.14	96.34	95.30	101.36	107.90	114.97	122.59
NET PRESENT VALUES										
DISCOUNT RATE(%)	.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00
NPV'S	761.52	674.68	599.01	535.04	478.73	429.59	386.52	348.62	315.16	285.51

SIC #5087 CASH FLOW
BASE CASE
($0-1 million assets)

FLORIDA

CASH FLOW SCHEDULE	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CASH IN										
EZ ACC PROFIT AFTER INT.&DEP. INCL. CAP GAINS BEFORE TAXES	6.09	35.39	75.40	130.18	141.15	152.99	165.78	179.59	194.51	210.62
DEPRECIATION	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88
LOANS RAISED:+										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	12.97	42.27	82.28	137.06	148.03	159.87	172.66	186.47	201.39	217.50
CASH OUT										
INVESTMENT	68.81	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN PRINCIPAL REPAYMENTS:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
TOTAL TAXES PAID	8.04	10.37	13.35	17.17	19.61	52.41	59.99	68.26	76.16	84.74
OF WHICH:-										
FICA	7.19	8.07	9.07	10.16	10.98	11.88	12.80	13.83	14.93	16.12
PROPERTY TAXES	.46	.44	.42	.40	.38	.36	.35	.33	.31	.30
CITY TAXES	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
INCREMENTAL:+										
STATE	.39	1.86	3.86	6.60	7.18	7.71	8.38	9.07	9.82	10.60
FEDERAL	.00	.00	.00	.00	1.10	32.46	38.46	45.03	51.10	57.72
	76.85	10.37	13.35	17.17	19.61	52.41	59.99	68.26	76.16	84.74
NET CASH FLOW	-63.88	31.90	68.93	119.90	128.42	107.46	112.67	118.21	125.23	132.76
NET PRESENT VALUES										
DISCOUNT RATE(%)	.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00
NPV'S	881.60	783.53	690.86	625.48	561.51	505.89	456.49	413.21	374.98	340.98

SIC #5087 CASH FLOW
EZ CASE
($0-1 million assets)
(Federal Incentives Only)

FLORIDA

CASH FLOW SCHEDULE	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CASH IN										
E/ ACC PROFIT AFTER INT.&DEP. INCL. CAP GAINS BEFORE TAXES	37.59	209.89	444.97	767.00	833.13	904.54	981.67	1064.97	1154.92	1252.08
DEPRECIATION	59.54	59.54	59.54	59.54	59.54	59.54	59.54	59.54	59.54	59.54
LOANS RAISED:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	97.13	269.43	504.51	826.54	892.67	964.08	1041.21	1124.51	1214.47	1311.62
CASH OUT										
INVESTMENT	895.42	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN PRINCIPAL REPAYMENTS:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
TOTAL TAXES PAID	40.31	52.64	142.03	351.27	385.31	479.59	519.36	562.32	608.66	658.77
OF WHICH:-										
FICA	31.71	35.62	39.99	44.92	48.51	52.39	56.59	61.11	66.00	71.28
PROPERTY TAXES	4.00	3.80	3.60	3.50	3.30	3.10	3.00	2.90	2.70	2.60
CITY TAXES	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
INCREMENTAL:-										
STATE	4.61	13.22	24.98	41.08	44.38	47.95	51.81	55.98	60.47	68.33
FEDERAL	.00	.00	73.46	261.77	292.11	376.14	407.96	442.33	479.48	517.56
	935.73	52.64	142.03	351.27	385.31	479.59	519.36	562.32	608.66	658.77
NET CASH FLOW	-838.61	216.79	362.48	475.27	507.36	484.49	521.85	562.19	605.81	652.85
NET PRESENT VALUES.										
DISCOUNT RATE(%)	.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00
NPV'S	3880.49	3393.88	3000.39	2659.77	2363.62	2105.04	1878.36	1678.85	1502.60	1346.35

SIC ‡5087 CASH FLOW
BASE CASE
($1-10 million assests)

FLORIDA

B-18

CASH FLOW SCHEDULE	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CASH IN										
EZ ACC PROFIT AFTER INT.&DEP. INCL. CAP GAINS BEFORE TAXES	37.58	209.89	444.97	767.00	833.13	904.54	981.67	1064.96	1154.92	1252.08
DEPRECIATION	59.54	59.54	59.54	59.54	59.54	59.54	59.54	59.54	59.54	59.54
LOANS RAISED:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	97.13	269.43	504.51	826.54	892.67	964.08	1041.21	1124.51	1214.47	1311.62
CASH OUT										
INVESTMENT	595.42	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN PRINCIPAL REPAYMENTS:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
TOTAL TAXES PAID	40.31	52.64	68.56	186.16	331.31	428.39	471.76	519.02	565.86	616.37
OF WHICH:-										
FICA	31.71	35.62	39.99	44.92	48.51	52.39	56.59	61.11	66.00	71.28
PROPERTY TAXES	4.00	3.80	3.60	3.50	3.30	3.10	3.00	2.90	2.70	2.60
CITY TAXES	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
INCREMENTAL:-										
STATE	4.61	13.22	24.98	41.08	44.38	47.95	51.81	55.98	60.47	65.33
FEDERAL	.00	.00	.00	96.67	235.11	324.94	360.36	399.03	436.68	477.16
	635.73	52.64	68.56	186.16	331.31	428.39	471.76	519.02	565.86	616.37
NET CASH FLOW	-538.61	216.79	435.94	640.38	561.36	535.69	569.45	605.49	648.61	695.25
NET PRESENT VALUES										
DISCOUNT RATE(%)	.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00
NPV'S	4370.36	3868.30	3434.92	3059.12	2731.80	2445.51	2194.09	1972.42	1776.24	1601.98

SIC #5087 CASH FLOW
EZ CASE
($1-10 million assets)
(Federal Incentives Only)

FLORIDA

B-19

CASH FLOW SCHEDULE	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CASH IN										
EZ ACC PROFIT AFTER INT.&DEP. INCL. CAP GAINS BEFORE TAXES	5.67	26.37	54.82	94.42	102.08	110.35	119.29	128.93	139.35	150.60
DEPRECIATION	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
LOANS RAISED:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	6.97	27.67	56.12	95.72	103.38	111.65	120.59	130.24	140.65	151.91
CASH OUT										
INVESTMENT	13.03	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN PRINCIPAL REPAYMENTS:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
TOTAL TAXES PAID	4.02	7.46	15.46	29.47	33.03	37.95	42.57	47.56	52.95	58.78
OF WHICH:-										
FICA	3.83	4.30	4.85	5.43	5.86	6.33	6.83	7.38	7.97	8.61
PROPERTY TAXES	.09	.08	.08	.08	.08	.07	.07	.06	.06	.06
CITY TAXES	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
INCREMENTAL:-										
STATE	.10	1.13	2.56	4.54	4.92	5.33	5.78	6.25	6.78	7.35
FEDERAL	.00	1.94	7.97	19.43	22.17	26.22	29.89	33.85	38.14	42.76
	17.05	7.46	15.46	29.47	33.03	37.95	42.57	47.56	52.95	58.78
NET CASH FLOW	-10.08	20.21	40.66	66.25	70.36	73.70	78.02	82.68	87.70	93.13
NET PRESENT VALUES										
DISCOUNT RATE(%)	.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00
NPV'S	602.64	537.04	480.57	431.75	389.35	352.27	320.01	291.56	266.40	244.27

SIC #5812 CASH FLOW
BASE CASE
($0-1 million assets)

FLORIDA

CASH FLOW SCHEDULE	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CASH IN										
E/ ACC PROFIT AFTER INT.&DEP. INCL. CAP GAINS BEFORE TAXES	5.67	26.36	54.82	94.42	102.08	110.35	119.29	128.93	139.35	150.60
DEPRECIATION	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
LOANS RAISED:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	6.97	27.66	56.12	95.73	103.38	111,66	120.59	130.24	140.65	151.91
CASH OUT										
INVESTMENT	13.02	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN PRINCIPAL REPAYMENTS:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
TOTAL TAXES PAID	4.02	5.51	7.49	10.04	10.86	11.73	12.68	38.02	43.75	49.48
OF WHICH:-										
FICA	3.84	4.30	4.85	5.43	5.86	6.33	6.83	7.38	7.97	8.61
PROPERTY TAXES	.09	.08	.08	.08	.08	.07	.07	.06	.06	.06
CITY TAXES	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
INCREMENTAL:-										
STATE	.10	1.13	2.56	4.54	4.92	5.33	5.78	6.26	6.78	7.35
FEDERAL	.00	.00	.00	.00	.00	.00	.00	24.32	28.94	33.46
	17.04	5.51	7.49	10.04	10.86	11.73	12.68	38.02	43.75	49.48
NET CASH FLOW	-10.08	22.15	48.63	85.68	92.53	99.92	107.90	92.21	96.90	102.43
NET PRESENT VALUES										
DISCOUNT RATE(%)	.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00
NPV'S	738.29	657.62	591.70	532.82	481.54	436.74	397.41	362.77	332.14	304.97

SIC #5812 CASH FLOW
EZ CASE
($0-1 million)
(Federal Incentives Only)

FLORIDA

CASH FLOW SCHEDULE	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CASH IN										
EZ ACC PROFIT AFTER INT.&DEP. INCL. CAP GAINS BEFORE TAXES	26.20	94.13	189.24	319.47	345.35	373.30	403.49	436.08	471.29	509.32
DEPRECIATION	4.01	4.01	4.01	4.01	4.01	4.01	4.01	4.01	4.01	4.01
LOANS RAISED:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	30.21	98.14	193.25	323.48	349.36	377.31	407.50	440.09	475.30	513.33
INVESTMENT	40.09	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN PRINCIPAL REPAYMENTS:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	[illegible]
LOAN A	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
TOTAL TAXES PAID	16.35	32.88	80.57	145.16	158.66	177.11	192.86	209.87	228.23	248.07
OF WHICH:-										
FICA	14.83	16.65	18.67	20.87	22.53	24.34	26.28	28.30	[illegible]	[illegible]
PROPERTY TAXES	.27	.26	.25	.23	.22	.21	.20	.19	[illegible]	[illegible]
CITY TAXES	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INCREMENTAL:-										
STATE	1.25	4.64	9.40	15.91	17.21	18.60	20.11	21.75	23.51	25.41
FEDERAL	.00	11.32	52.25	108.14	118.70	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	56.44	32.88	80.57	145.16	158.66	177.11	192.86	209.87	228.23	248.07
NET CASH FLOW	-26.23	65.26	112.69	178.32	190.70	200.19	214.63	230.23	247.07	265.25
NET PRESENT VALUES										
DISCOUNT RATE(%)	.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00
NPV'S	1678.10	1495.42	1338.25	1202.43	1084.54	981.80	891.90	812.93	743.31	681.71

SIC #5812 CASH FLOW
BASE CASE
($1-10 million assets)

FLORIDA

CASH FLOW SCHEDULE	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
CASH IN										
EZ ACC PROFIT AFTER INT.&DEP. INCL. CAP GAINS										
BEFORE TAXES	26.20	94.13	189.24	319.47	343.35	373.30	403.49	436.08	471.29	509.32
DEPRECIATION	4.01	4.01	4.01	4.01	4.01	4.01	4.01	4.01	4.01	4.01
LOANS RAISED:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	30.21	98.14	193.25	323.48	349.36	377.31	407.49	440.09	475.30	513.33
[illegible]										
INVESTMENT	40.09	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN PRINCIPAL REPAYMENTS:-										
EXISTING LOANS	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN A	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
LOAN B	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
TOTAL TAXES PAID OF WHICH:-	16.35	21.56	28.32	37.01	39.96	93.44	146.56	174.37	192.63	211.77
FICA	14.83	16.65	18.67	20.87	22.53	24.34	26.28	28.39	30.66	33.11
PROPERTY TAXES	.27	.26	.25	.23	.22	.21	.20	.19	.18	.17
CITY TAXES	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
INCREMENTAL:-										
STATE	1.25	4.64	9.40	15.91	17.21	18.60	20.11	21.75	23.81	25.41
FEDERAL	.00	.00	.00	.00	.00	50.28	99.96	124.04	138.29	153.08
	56.44	21.56	28.32	37.01	39.96	93.44	146.56	174.37	192.63	211.77
NET CASH FLOW	-26.23	76.58	164.93	286.47	309.40	283.87	260.93	265.73	282.67	301.56
NET PRESENT VALUES										
DISCOUNT RATE(%)	.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00
NPV'S	2205.91	1976.89	1778.92	1607.04	1457.16	1325.92	1210.55	1108.73	1018.56	938.41

SIC #5812 CASH FLOW
EZ CASE
($1-10 million)
(Federal Incentives Only)

Impacts of Downtown Revitalization Projects on Small Business

Prepared for the Small Business Administration

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September, 1981

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ACKNOWLEDGEMENTS

This report was prepared by Cambridge Systematics, Inc. under grant contract SB-1A-00018-01-0 with the US Small Business Administration.

Glen Weisbrod was the project manager responsible for this report. Many of the case studies in Chapter 2 were developed by Melissa Laube and Heather Hazard. The computer analysis of downtown business patterns in Chapter 3 was conducted by Henry Pollakowski and Brian Rittenhouse. Daniel McFadden assisted in the direction of the project through his role as principal responsible. Susan Billings, Patti Kinnear and Carol Walb assisted in the report preparation.

Maureen Glebes, the project officer in the SBA Office of Economic Research, assisted the project team in the identification of analysis issues for this study, and Dennis Jacques of Dun & Bradstreet provided advice on the use of the Dun & Bradstreet data base. Interpretations of the data are, of course, those of the authors.

We are deeply indebted to a large number of local officials and business leaders who discussed the status of their downtown revitalization efforts with us. Particular thanks go to:

Trenton--Mervin Platt (Platt and Plattingers Co.), Jim Ort (Trenton Commons Commission), Lee Lybarger (Trenton Department of Housing and Development), Lewin J. Weyl (City of Trenton);

Madison--John Urich (City Planning Department), Mikele Stillman (Mall Coordinator, Madison Public Works Department), Christine Stiles Bylsma (Central Madison Council);

Memphis--Don Paight (Center City Commission);

Baltimore--C. William Pacey (President, Market Center Development Corporation), John Snell, Terry Rosapep and Larry Caplan (Regional Planning Council), John C. Weiss, III (Baltimore Economic Development Corporation), David Hunter and Bob Keller (City of Baltimore);

New Orleans--Jerome Moomau (Downtown Development District), Bruce Sims (French Market Corporation), Pamela Hooper and John Hammond (City of New Orleans) and Hank Lambert (Vieux Carre Commission);

Portland--Doug Obletz (Project Coordinator, Portland Development Commission);

Boston--Bethany Kendall (Director, Downtown Crossing Association), Alvin Schmertzler (independent merchant), Ronald Druker (The Druker Company, developers), Mathew Coogan (Boston Redevelopment Authority);

Chicago--Charles Gardner (Director, State Street Council).

EXECUTIVE SUMMARY

Impacts of Downtown Revitalization Projects on Small Business

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1. Overview

The future for small, independent retailing operations has become linked closely with the future of downtown commercial districts, as the major suburban shopping malls have been populated largely by regional and national chain stores--the local units of large businesses. This report examines impacts of efforts to revitalize downtown commercial districts, specifically the extent to which different sizes and types of businesses benefit from such programs. The study includes four elements--(1) a review of existing trends affecting downtown retailing, (2) case study evaluations of revitalization projects in seven cities, (3) time series analysis of business changes in those seven downtowns, and (4) a review of public programs and policies affecting small businesses and downtown revitalization.

2. Types of Downtown Revitalization Projects

A "downtown revitalization" program can include any project or policy aimed at improving the central business district of a city, particularly the retail core that is the historical center of downtown retail and service activity. Strategies include physical improvements to the downtown environment, the construction of new shopping facilities downtown, centralized promotion, financing for store improvements, and tax subsidies for new entrants. Downtown revitalization efforts including some of the above five elements have been implemented in practically every city in the nation. The most visible forms of downtown improvements are the construction activities--public investment/mall projects and development of new retail facilities.

Among efforts to improve downtown commercial activity, it is crucial that a distinction be made between (1) Revitalization Projects--public improvements and support services to strengthen an existing retail district, and (2) Redevelopment Projects--development a new center of commercial activity in the downtown area. Commercial revitalization projects are designed to strengthen retail activities among downtown districts which are typically dominated by small, independent businesses. Commercial redevelopment projects, on the other hand, can offer competition (rather than support) to the existing retail blocks and can represent a major source of new chain stores (rather than small, independent stores)--depending on their location, design and tenant mix. Downtown shopping centers (as well as suburban shopping centers) are often dominated by national chain stores, as developers and lending institutions prefer chain stores due to their higher credit ratings, proven success at attracting customers, and the developers' prior experience working with the chains in suburban centers. While the tenant mix of a downtown shopping center can be determined by the preferences ofthe developer and the financing institution, tenant mix in on-street business districts is largely a product of market forces. This study thus focuses on the impacts of public efforts to support existing downtown retail districts.

3. Changing Trends in Retailing

One factor that on the surface appears to benefit small business is the trend toward small specialty shops. However, chain stores, recognizing the trend toward specialty shops, have already been establishing strong positions in the areas of apparel and restaurants, in addition to their historically strong position in areas such as drugs and personal care items.

There are several reasons why chain stores can be quicker to move in or expand operations in downtown revitalization zones. Chains can usually more easily weather any early financial losses occurring during construction of the street and sidewalk improvements. Their marketing and expansion strategies are most likely to be oriented towards aggressive competition when they identify a market potential downtown, as opposed to many existing independent businesses that often provide more personal service for an established clientele.

4. Case Study Overview and Findings

The case studies, based on site visits, describe downtown revitalization projects in seven cities:

- o Trenton: Trenton Commons
- o Madison: State Street Mall/Capital Concourse

- o Memphis: Mid-American Mall
- o Baltimore: Lexington Street Mall and Old Town Mall
- o New Orleans: Canal Street and French Market
- o Portland: The Portland Mall
- o Boston: Downtown Crossing

These sites represent a range of city sizes and geographic locations. Each of the projects (with the partial exception of the French Market) represented an attempt to bring new activity to an existing retail district, rather than the construction of a new shopping facility. The techniques employed were usually similar, and included some or all of the following elements: (a) public investments to improve the physical image of the shopping district through expanded pedestrian space, greenery plantings, benches and other pedestrian amenities; (b) improved transit services; (c) centralized management for advertising the retail district and organizing special activities there; and (d) regulations and assistance for building improvements. Most of the projects include some form of traffic restriction as a means of increasing the pedestrian space. The projects were funded by a variety of services, including the Department of Housing and Urban Development, the Ecomomic Development Administration, the Department of Transportation, local general funds and a special assessment or tax district.

Although the case studies presented here cannot represent the full range of nationwide experiences with downtown retail district revitalization projects, they do serve to illustrate some important points. These are:

A. All of the downtown sites had significant decreases in business activity and losses of stores from the 1950s to the early 1970s, and in several of the cities, remaining businesses (mostly small, independents) adjusted to lower merchandise quality and refrained from store improvements in order to survive.

B. The projects to revitalize the downtown retail districts were sometimes initiated by the merchants, but more frequently were initiated by the city government.

C. There is tremendous variation in local attitudes toward the entrance of chain stores downtown. In those downtowns where run-down or low quality stores are present, the entrance of chain stores following initiation of the revitalization project improvements are welcomed for the improved image and level of marketing they bring. Other downtown retail districts are being reoriented as specialty centers in which unique independent stores (rather than chain stores) are sought. In many other downtowns, however, the issue of chain stores versus independent merchants has not been considered.

D. Many of the more successful downtown revitalization efforts have benefited from public-private partnerships in project planning and funding. Projects in four of the seven cities include a special assessment or tax district to raise funds from the area merchants/property owners.

5. Time Series Analysis of Dun and Bradstreet Data

The time-series analysis is based on an evaluation of changes over time in business growth and composition within the revitalization zones and other parts of the seven case study cities. The primary data source for this is Dun and Bradstreet, which provides annual information for most business establishments in the United States, including: street address, line of business, employment size, sales volume, and ownership type (whether the establishment is an independent business, a subsidiary or part of a chain). Records were obtained for all retail establishments and selected consumer-oriented services in each of the case study cities for five points in time covering 1972 through 1979.

The business address information makes it possible to analyze differences in business among specific areas of the case study cities, including the revitilization project zone, the rest of the Central Business District, and other retail districts. Businesses are classified in terms of employment size, ownership type and business type. Profiles of the different business zones are compared, and by matching business records across time periods, entry and exit rates are computed. The growth of businesses over time is measured in terms of employment and sales volume. The availability of this information on a multi-year basis makes it possible to examine trends over periods before, during and after the revitalization projects. Major findings are:

A. Differential Ownership Types--The displacement of independent businsses by chain stores following downtown revitalization projects exists in some cities but is not universal. Among the downtown revitalization districts, the proportion of chain stores has been rising dramatically in some of the revitalization districts but dropping in the less successful revitalization districts. Among the overall Central Business Districts, however, the proportion of chain stores has simultaneously been rising for all five larger cities; only the CBDs of the two small cities did not experience any increase in the net proportion of chain stores.

B. Differential Business Types--Shifts in the types of businesses [illegible] the revitalization districts varied greatly from city to city. All of the downtown revitalization districts, however, are dominated by variety (general merchandise) stores, apparel shops and stores selling various non-durables (lower priced goods). In five of the seven cities, the downtown revitalization district has far fewer restaurants than the rest of the CBD.

C. Total Number of Businesses Present--The Dun and Bradstreet files had consistent increases over time in the number of businsses for the revitalization zones in two of the seven cities, and had no change or decreases in the number of businesses for the revitalization zones in the other five cities.

D. Growth of Existing Businesses--While changes in the mix of businesses were observed, there was no evidence in any of the study cities that existing businesses in the revitalization districts grew at a higher rate since initiation of the revitalization projects, nor that they grew more than businesses elsewhere in the CBD. In both revitalization zones and comparison zones, the large independent stores tended to show declines in employment size while the small independent and chain stores showed increases.

E. Cross-Site Summary Regressions--Although the tabulations of business growth, entry and exit rates showed varying trends among the sites, there are some common factors that affect these observed trends. To estimate the relationship between growth, entry and exit/survival rates and various explanatory factors, data from all seven cities were combined for cross-site regressions. Major findings were:

- The revitalization projects had no significant impact on observed growth or survival of existing businesses but did have a statistically significant impact on increasing the rates of new store entry into the study areas.

- Chain stores tended to enter the study areas more frequently than independent businesses, although rates of growth and survival were not significantly different between chains and independents.

- The strength of the local economy, as measured by the unemployment rate, also had a significantly positive impact on the rate of new store entry into the study area but no significant impact on observed growth or survival of existing businesses.

- The relative importance of the CBD as a source of metropolitan-wide retail sales was a positive factor affecting growth of existing businesses in the study areas but had no significant effect on entry and exit rates.

6. Policies to Support Small Businesses in Downtown Revitalization Areas:

A. Physical improvements to public spaces are usually a major element of programs for the revitalization of existing downtown retail districts. HUD, DOT and EDA have been important sources of funding for these types of projects, although the projects often also rely upon special assessments on area businesses as a source of funding.

B. Private investment is supported by a variety of loan programs from several different sources, plus the Urban Development Action Grant program for major development projects. The need for greater small business involvement in UDAG-supported retail developments is one concern of existing small retail businesses. In general, there is concern that the struggle of small businesses to preserve their independence and continuity can be made more difficult by urban revitalization policies that discriminate against the existing store owner in the drive to attract new businesses into the area.

C. Downtown associations to actively promote shopping in the central business district are important for providing small downtown businesses with some of the support mechanisms long available to suburban shopping centers. Such organizations are new to many downtown areas and are still nonexistant in some cities. Effort is needed to continue the growth of such activities.

D. Financial support for expansion of existing businesses comes from several different federal programs and is funnelled through a variety of types of downtown authorities and economic development corporations. Small businesses can be unaware of the range of programs that exist. Ultimately, however, retail and service businesses tend to have lower needs for equity investment than other types of small businesses. Working capital for operations and inventory are particularly critical needs for small retail businesses, but there is far less availability of loan funds for those needs.

E. Independent businesses inherently face disadvantages relative to chain stores in areas of credit, taxes and placement in new shopping developments. Rent guarantees, tax breaks and shopping center placement services for independent retailers could help equalize these differences.

F. The widespread growth of downtown street malls allows substantial opportunities for new enterpreneurship in the form of street vendors and kiosk operations, although assistance is necessary to help local areas define guidelines regulating the types of operations allowed.

1. INTRODUCTION

1.1 Study Overview

This report examines impacts of efforts to revitalize downtown commercial districts, specifically the extent to which different sizes and types of businesses better benefit from such programs. Through three elements--(1) an analysis of existing trends affecting downtown retailing, (2) case study evaluations of seven revitalization projects, and (3) time series analysis of business changes in those seven downtowns--the study attempts to address the following questions:

- Have existing policies for downtown redevelopment been favorable or unfavorable to small independent (retail and service) firms relative to their larger counterparts?
- Which types of revitalization plans seem particularly beneficial or harmful to small retail and service firms?
- Are there various size categories or types of firms which are particularly affected (either positively or negatively) by specific revitalization policies?
- What modifications to the existing plans might make them more beneficial to smaller businesses?
- Are there existing federal programs under which these policies can be implemented?

The remainder of this chapter includes an overview of the position of small retail businesses and a description of the types of revitalization programs addressed in this study. Chapter 2 then presents a more detailed discussion of changing trends in retail operations and marketing and current trends affecting the role of small businesses downtown. Effects of downtown revitalization and redevelopment projects on downtown business mix, as noted from previous studies and observations, are described.

Chapter 3 describes revitalization projects and observed impacts in the seven cities chosen for analyses. These projects are:

- Trenton: Trenton Commons
- Madison: State Street Mall/Capitol Concourse
- Memphis: Mid-America Mall
- Baltimore: Lexington Street Mall and Old Town Mall
- New Orleans: Canal Street and French Market
- Portland: The Portland Mall
- Boston: Downtown Crossing

Based on site visits and interviews with local officials and merchant representatives, these case studies summarize: (1) project setting and downtown land use, (2) project objectives, (3) description of physical improvements and ongoing project operations, (4) project financing, and (5) locally-observed impacts on business conditions. The Boston case study also includes analysis of a series of special surveys of businesses, developed specifically to assess impacts of the downtown revitalization project there.

Chapter 4 presents an empirical analysis of business changes associated with the commercial district revitalization projects. The analysis uses records from Dun and Bradstreet on retail and service businesses located within and outside of the project areas in each of the seven case study cities over a seven year period. Changes in business mix, entry/exit and growth rates are examined for different businesses by size, ownership class and business type for periods before and after implementation of the revitalization project improvements. Results are summarized in terms of trends common across sites.

Chapter 5 utilizes findings from the analyses in Chapters 2-4 as a basis for exploring the range of policies affecting downtown revitalization and the position of small retail and service firms. Included are federal, state and local programs aimed at providing improvements to the physical environment downtown, incentives for new private investment, programs to provide renovation and expansion capital, central management of downtown activities, and business support activities.

A discussion and analysis of strengths and weaknesses of the Dun and Bradstreet data is included on the Appendix.

1.2 Motivation--The Position of the Retail/Service Sector Downtown

The Retail Sector of Small Business

There has been increasing interest in the role of entrepreneurs and small businesses in economic development, especially as recent research has supported the contention that small firms are a major source of innovation and job creation.[1] Accordingly, various policies to encourage the growth of small businesses by providing them with tax breaks, new sources of capital, and/or reduced regulation have been considered at the state and federal levels. Yet it is important to note that most of the analyses of small businesses, from the documentation of barriers in obtaining equity and debt, to measurement of their importance in local economic development, have focused on the manufacturing and industrial service sectors. Much less is known of the behavior of and conditions faced by small businesses in the commercial (retail) and consumer service sectors.

It is known that small commercial establishments remain strongly market oriented, with high mobility rates that are sensitive to market shifts (Berry, 1979). At the same time, the future for small, independent retailing operations has become linked closely with the future of downtown commercial districts, as the major suburban shopping malls have been populated mostly by regional and national chain stores--the local units of large businesses.

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[1] Using the nationwide Dun and Bradstreet files on 5.6 million businesses over 10 years, Birch (1979) found that 66 percent of all new jobs generated in the United States between 1969 and 1976 were created by businesses with 20 or fewer employees. Analyzing the Census of Manufacturing, Garn and Ledebur (1980) also found that small firms generate more new jobs than do larger firms. Still unclear is whether these jobs are primary or secondary, or spurred by work performed by larger businesses.

Competitive Environment for Downtown Retailing

The growing suburbanization of the two decades following World War II led to a proliferation of suburban shopping centers as business markets followed the population movements. This trend was assisted by a trend towards widespread reliance on the automobile and an expanding road system. Most downtown areas suffered as the new growth occurred in suburban retail districts and shopping malls and they lost retail sales to those suburban locations.

In direct contrast to this large investment in suburban retail facilities, many small and independent businesses in the central business districts were cutting back operating and maintenance budgets. Struggling to retain a grip on some share of the dwindling number of downtown shoppers did not provide financial leeway to undertake major renovations and creative marketing campaigns. Downtown retailers were not only losing what had once been a competitive edge in location, but their fixed facilities were often deteriorating and their capital reserves were being depleted as well. As the downtown retail base declined, downtown retailers in some cities reoriented themselves to serving the lower income market of inner city neighborhoods (Block, 1978).

The difficulties small retail businesses currently face are ones of circumstance compounded by policy. Today, higher gasoline prices, land use controls and a restricted money supply (which has sharply curtailed much of new home development), in addition to the rapidly increasing real costs of new commercial construction, are contributing to a shift in the balance which dictates the location of retail activities. There is some belief that the long term trend towards out-migration of high income households from the core areas of US cities may well be slowing.

1.3 The Types of Revitalization Programs Addressed in This Study

Public Efforts at Downtown Revitalization

While motivated primarily by the desire to turn around the trend toward decline of real economic activity in most downtown areas, the goal of downtown economic revitalization also supports a variety of related objectives, from optimizing usage of existing capital stock and infrastructure to minimizing energy consumption and transportation costs and increasing inner city employment opportunities.

The federal role in downtown development has shifted over time. The federal Urban Renewal program, as it affected downtown development, lasted in various forms from 1954 (when the Housing Act of 1949 was amended to include nonresidential projects) to 1974 (when it was replaced by the Community Development Block Grant program). In the years following the end of the Urban Renewal programs, the share of public funds going to downtowns reached a low point (International Downtown Executives Association, 1977). Since then, funds for downtown revitalization and redevelopment projects have come from sources such as the Economic Development Administration, the Department of Housing and Urban Development, the Department of Transportation, and the Small Business Administration, as well as local revenue bonds and special taxing districts.

A "downtown revitalization" program can include any program or policy aimed at improving the central business district of a city, particularly the retail core which is the historical center of downtown retail and service activity. Such policies can encompass any of five major types of strategies:

A. Physical Activities

1. sidewalk widenings, amenity improvements and mall projects to improve the visual environment of an existing retail district
2. construction of new shopping facilities (arcades and shopping centers) downtown

B. Support Activities

3. central management and promotion concepts for an existing retail district
4. regulations and subsidies to encourage storefront (and interior) improvements
5. special tax abatements and subsidies to encourage new entrants.

Downtown revitalization efforts including one or more of the above five elements have been implemented in practically every city in the nation. The most visible forms of downtown improvements are the construction activities--(1) public investments/mall projects and (2) development of new retail facilities. Tables 1-1 and 1-2, respectively, list some examples of these two types of downtown commercial district projects to illustrate the broad range of geographic locations and city sizes in which they have occurred.

Among efforts to improve downtown commercial activity, it is crucial that a distinction be made between (1) public improvements and support services to strengthen existing retail district, and (2) projects to develop a new center of commercial activity in the downtown area. The latter may technically be referred to as land "redevelopment" projects, whereas the former are more accurately "revitalization" projects. Commercial revitalization projects are designed to strengthen retail activities among downtown districts which are typically dominated by small, independent businesses. Commercial redevelopment projects, on the other hand, can offer competition (rather than support) to the existing retail blocks and can represent a major source of new chain stores (rather than small, independent stores) --depending on their location design and tenant mix. The tenant mix of a downtown shopping center is determined primarily by the goals and objectives of the developer (and the requirements of the financing institution), in contrast to on-street business districts where tenant mix is largely a product of market forces. As discussed in Chapter 2, the extent to which downtown shopping development projects assist or discriminate against small business depends in large part on the personal

TABLE 1-1

Examples of Downtown Revitalization Projects Utilizing Amenity/Image Improvements

Market Street--Corning, NJ
Birmingham Green--Birmingham, AL
Lincoln Road Mall--Miami, FL
Nicolett Mall--Minneapolis, MN
Capitol Plaza--Springfield, IL
River City Mall--Louisville, KY
Eugene Mall--Eugene, OR
Trenton Commons--Trenton, NJ
Captain's Walk--New London, CT
K Street Mall--Sacremento, CA
Fulton Street Mall--Fulton, CA
Capitol Concourse/State Street Mall--Madison, WI
Westminister Mall--Providence, RI
Downtown Crossing, Boston, MA
Canal Street, New Orleans, LA
River Bend Plaza--South Bend, IN
The Portland Mall--Portland, OR
Central Plaza--Galveston, TX
State Street Mall--Chicago, IL
Lexington Mall--Baltimore, MD
Old Town Mall--Baltimore, MD
Washington Blvd. Revelopment --Detroit, MI
Main Street Mall--Charlottesville, VA
Mid-America Mall-Memphis, TN
Market Street--Corning, NY
Fort Street Mall--Honolulu, HA
Franklin Street Mall--Tampa, FL
Plaza 8--Sheboygan, WI
Chestnut Street Mall--Philadelphia, PA
Centennial Mall--Lincoln, NB
Fulton Mall--Brooklyn, NY
Lebanon Downtown Mall--Lebanon, NH
Lawrence, KS
St. Clair Street Mall--Frankfort, KY

TABLE 1-2

Examples of Downtown Shopping Centers

Midtown Plaza--Rochester, NY
The Gallery at Market East--Philadelphia, PA
Courthouse Center--Columbus, OH
Central City Mall--Bernardino, CA
Hawthorne Plaza--Hawthorne, CA
Faneuil Hall Marketplace/Quincy Market--Boston, MA
Glendale Galleria--Glendale, CA
Lloyd Center--Portland, OR
Plaza Pasadena--Pasadena, CA
City Centre Mart--Middletown, OH
Pike Place--Seattle, WA
Larimar Square--Denver, CO
Water Tower Place--Chicago, IL
Charles Center--Baltimore, MD
Lafayette Plaza--Bridgeport, CT
Santa Monica Place--Santa Monica, CA
Crossroads Plaza--Salt Lake City, UT
Ogden City Mall--Ogden, UT
Central City Mall--San Bernardino, CA
Nordstrom Mall-Salem, OR
The Galleria--White Plains, NY
Mankato Mall--Mankato, MN
Wausau Mall-Wausau, WI

attitudes of developers, which vary widely. Rather than surveying developer attitudes, however, this study instead focuses on the plight of the traditional downtown retail districts and the impacts of efforts to revitalize them on the small businesses located there.

Implications of Local Revitalization Efforts for Small Businesses

Despite much of the publicity and intentions surrounding downtown retail revitalization, the implications of such efforts for small, independent businesses are not necessarily good. For example, many of the economic incentives for retailers and consumer-oriented services are available only to new entrants into the city but not for existing firms. Given the financial and planning resources available to large retailers, chains and larger businesses may be more aware and able to take advantage of these subsidies and tax breaks than are small firms. Similarly, while physical amenity improvements, reductions in vacant and under-utilized frontage, pedestrian arcades and transit malls may make an area more attractive to shoppers, small independent businesses can find that they are squeezed out of the shopping district. This occurs because, to the extent that such improvements help increase retail sales, small businesses find themselves competing for what have become premium locations. In addition, this may very well occur at a time when small businesses are unable to respond to the newly competitive market through extensive renovation, extensive face-lifting promotion, or a change in product lines without special loan programs to address their lack of accummulated capital and their high cost of borrowing from commercial banks. Similarly, short-term economic policy objectives, such as broadening the tax base as rapidly as possible, are not always supportive of long term goals, such as the health of small businesses. A striking example of this has been so-called "fiscal zoning," where land use is determined by the potential revenue and tax gains feasible when constraints are removed. Special Assessment districts, where property owners pay additional taxes in return for special improvement projects or services in their district, have also been initiated to fund localized improvement programs in some cities. Cities can discover post facto that the effect of their increased tax revenues has been a change in the area's character. Primary and secondary effects of policies need to be more carefully examined if their full impacts are to be accounted for.

2. ISSUES AND TRENDS: REVITALIZATION OF DOWNTOWN RETAIL DISTRICTS AND THE ROLE OF SMALL BUSINESS

A. The Movement of Retailing to Suburbia

The geographic location pattern of retail activity shifted dramatically in the three decades following World War II, as retailing kept up with (and in some cases led) the decentralization of urban population. The new market opportunities in low-density suburban settings were at a larger scale and led to greater corporate and management concentration in retailing than was common before World War II, when retail activity was focused on the nation's older urban centers (Berry, 1979). As chain stores were expanding in suburban shopping centers, the relative numbers of independent, locally-owned retail and service outlets serving the population from downtown areas declined.[1]

B. The Identificaton of Small Business with Downtown

Downtown revitalization and support of small business have been identified together because downtowns are where there are typically large concentrations of small, localized businesses. Downtown retail districts, as well as neighborhood retail districts, are in fact dominated by small, independent businesses. A 1978 study of community economic development in 15 cities concluded that urban business districts are often highly vulnerable to changes in economic circumstances, exactly because the small businesses in them are frequently undercapitalized and have difficulty obtaining adequate financing or insurance. In addition, their owners often have limited training in modern management techniques and do not belong to any viable business associations (Shapiro et al., 1978).

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[1] According to the U.S. Census of Retail Trade, the percentage of retail establishments which are single units (i.e., not part of a chain) decreased from 1972 to 1977 for general merchandise (from 55 percent to 52 percent), for apparel (from 68 percent to 65 percent) and for restaurants (from 89 percent to 84 percent).

Given the current dominant but ailing position of small business in many downtown areas, it has been concluded by a variety of researchers that revitalization of downtown business districts and support for small business go hand-in-hand. For example:

> "a healthy small business sector of owner-operated retail and service enterprises--rather than regional or national chain stores and companies--is the touchstone of downtown vitality."--(Norton, 1979)

> "revitalization amounts to salvation for central cities and . . . revitalization will be sustained if it succeeds in creating the essential economic spiral--success breeds success. At the pivot of that spiral is small business."--(Chandler, 1979)

C. Changing Trends in Retailing

One factor which on the surface appears to benefit small business is the trend toward specialty shops (i.e., small shops specializing in a class of merchandise such as women's casual clothing, jeans or gifts). Whereas the 1960s and early 1970s had major expansions of discount stores, variety drug store chains and even department stores, retail growth since then has been more concentrated in the small specialty shop.

While major department stores remain the anchor and a major magnet for downtown retailing, most of the growth in downtown economies has been occuring among women's apparel shops, restaurants, jewelry stores and drug stores (US Census of Retail Trade, 1977). (This trend is examined further in Section 4.) This pattern of growth of specialty shops reflects a trend toward "miniaturization" of retailing--a movement toward smaller size stores (Barmash, 1979).

It is sometimes assumed that the trends toward the growth of smaller size stores bode well for small businesses and downtown areas (e.g., Norton, 1979). In fact, the true role of small business growth as an element of downtown revitalization is unclear. One major reason why is that chain stores, recognizing the trend toward specialty shops, have already been establishing strong positions in the areas of apparel and restaurants, in addition to their historically strong position in areas such as drugs and personal care items.

The rapid growth of clothing chain stores has occurred at the expense of both department stores and independent clothing businesses. A 1978 review of this issue noted: ". . . while its true that some of the specialty chains' business may come from department stores, much of it is derived from the independent specialty operators whose dominance in specialty retailing is being chipped away as mall owners look for chains with good track records and strong balance sheets to stock shopping centers."--(*Chain Store Age Executive*, 1978).

The declining position of small independent businesses in the retail sector is not a new trend, but rather, the continuation of a process that started in the 1950s. This trend is even evident in the titles of books; for example, a book on setting up a small apparel store was published in the mid 1950s under the title: *Success on a Shoestring* (Cahill, 1956). A decade later, the same author wrote a new book on the subject titled: *Can a Smaller Store Succeed?* (Cahill, 1966), noting that the success stories of the previous decade were no longer possible.

Franchises and chain stores operate with a set of promotional tools that are partly shared, and yet in part surprisingly different from those used by small retail and service businesses. While a small retailer may cultivate its clientele on the basis of personal, differentiated service, a chain store offers something as close to complete substitutability as it can manage. Similarly, while a small, independent store may rely on the appeal and promotion campaigns of name brand items, a chain drug store may rely on its house brand and its own ad campaigns. Generally, the larger capital base of chain store gives it a competitive edge as a result of:

- o lower prices (supported through large lot purchases),
- o market saturation (achieved by heavy advertising), and
- o consumer conditioning (promulgated by habitual use which is expedited by multiple locations).

A larger chain company may also be able to cross-subsidize its units, transfering funds from successful operations to bolster sales at an ailing unit with an infusion of capital or operating expenditures.

The continuing trend toward further growth of chain stores in suburban as well as urban settings is recognized by shopping center developers. Howard Abrams, partner in Strouse, Greenberg and Company of Philadelphia, recently predicted that the shopping centers four years from now will feature a very different tenant mix, with even more chain stores and fewer local or small regional tenants (Shopping Centers Today, May 1981 issue).

D. Downtown Redevelopment

As discussed earlier in Section 1.3, there are two different strategies for increasing retail activity in a downtown: (1) public improvements to encourage growth of the existing activity, and (2) construction of a new shopping facility there. The concept of building downtown shopping centers is seen today as a new growth area by developers and as a means of downtown revitalization by some city officials. (See, for example, discussions by Peter Leibowits, President of Cadillac Farview Shopping Center (USA) Ltd. and Laurin Askew, Jr., Vice President of the Rouse Company at the seminar on "Revitalization through Urban Shopping Centers" sponsored by the National Retail Merchants Association in April 1981).[1] The new shopping facility may be either new construction or a building rehabilitation project, and it may be located in the traditional downtown retail district or nearby and in competition to that district. In any case, it is likely to have a substantial impact on the mix of business in that area and may displace some businesses previously at the site.[2]

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[1] Reported in Downtown Idea Exchange, Vol. 28, No. 10, May 15, 1981.

[2] Effects of a Chicago urban renewal project on the dislocation and liquidation rates of small businesses are examined in Berry, et al. (1969).

With projects such as Philadelphia's Gallery at Market East, the concept of downtown shopping centers has recently gained new popularity. In the 1940s and 1950s, shopping center developers primarily considered suburban sites for the location of new regional shopping centers, following the shift of urban dwellers out of the city and encouraged by the construction of new highways and subdivisions in the suburbs. In the 1980s, however, the suburban market has approached saturation in many metropolitan areas and mall developers and major department stores have turned to reconsider the center city:

> ". . . it may become necessary to put the malls back in the center of the city. These urban opportunities may well represent new markets for many retailers"--Frank Lanzi, J. C. Penney Co. (International Council of Shopping Centers, conference in Boston, October 1977, quoted in Yudis, 1977)
>
> ". . . we're coming to a point where there are enough forces coming together to make downtown [retail] developments feasible again. For one thing, many cities have made dramatic progress in other kinds of development downtown such as housing, office buildings and hotels and these cities are coming back. Many cities are developing very good mass transit systems, which can be very important to successful retail development. . ."--Matt Devito, President, The Rouse Co. (quoted in Shopping Center World, October 1977)
>
> "Possibly the most exciting development opportunity of the 1980's will lie in the new retail potential of CBDs through the development of downtown shopping malls and speciality centers. It now appears that major department store chains have realized the potential for downtown retail activity, although in many cases they must relocate their downtown stores and/or integrate their stores into a modern mall-type facility...Speciality retail center projects are likely to take many forms, ranging from the conversion of old warehouses or factories to new construction....They will be designed for small shops and restaurants. . "--Urban Land Institute's Urban Development/Mixed Use Council (Urban Land Institute, 1980, p. 191).

E. Business Mix in Downtown Shopping Developments

Since a shopping center or shopping arcade building is developed by a single organization, the mix of businesses there is partially within the control of the developer. As with suburban shopping centers, and in contrast to the traditional downtown retail district, new downtown shopping malls are usually dominated by national chain stores. Chain stores are typically preferred by developers because of their reliable reputation and proven success at attracting customers, and the developers' prior experience working with the chains in suburban shopping centers. By relying on triple-A credit-rated national chains, a shopping center developer obtains stores whose performance and merchandising require less assistance than independent merchants. To a large extent, the bias towards filling a shopping center with well-known chain stores is also pushed by the lending institutions which fund the development. The financial discrimination against relying upon small businesses in downtown development projects is illustrated by the well-documented experience Boston's Faneuil Hall Marketplace. As part of this highly successful project, the decayed Quincy Market warehouse was rehabilitated into a new retail development, filled with small local businesses and individually-operated stalls, giving it an atmosphere very different from that of the usual shopping mall. The concept of 150 independent shops without a single department store or national chain store was foreign to bankers, and local Boston banks were not interested in the project. As a result, the project took three years to get financing (by New York banks) and even then had to open in phases over 1976-1978 due to financing constraints (Stocker, 1979).[1]

Quincy Market succeeded in obtaining sales per square foot triple the national average in regional malls through small sole prietorships, "without a major department store or parking lot in a downtown situation where a lot of people didn't think it could be done" (James McLeon, General Manager of Faneuil Hall Marketplace, in Chain Store Age Executive, December 1977). A unique element of Quincy Market was the "Bull Market"--28 pushcarts selling various handicrafts from permanent locations along the sides of the market building. The carts have been highly successful, and several of the cart operators have since taken up permanent residence as stores in the North and

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[1] With the expansion of Faneuil Hall Marketplace into the North and South Market buildings, there are now a small number of national chains ranging from specialty housewares to ice cream, but there are still no department stores.

South Market buildings of Faneuil Hall Marketplace. "It shows that you can really incubate a permanent tenant," according to Tina Riviere, manager of the Bull Market.[1]

While the success of Faneuil Hall Marketplace with its reliance on small businesses is instructive, it is not typical of downtown shopping centers. A subsequent project by the same developer--The Gallery at Market East in downtown Philadelphia--is filled primarily with national chain stores. James Rouse (the developer) noted that he and the Chairman of the anchor department store that were instrumental in pushing for the development were "legitimately displeased with our failure in Philadelphia to produce the quantity of small, independent merchants which he and we wanted in The Gallery. It simply wasn't possible and this made it doubly important for us to do the next best leasing that could be done. I believe we did it. Success will improve the merchant mix, year by year." (James W. Rouse, "The Philadelphia Story: The Gallery at Market East", address to Annual Meeting of Associated Merchandising Corporation, May 3, 1978). In fact, leasing the project had initially been difficult. The high rents required for the downtown project precluded some independent merchants from leasing space in The Gallery, and even suburban-oriented chains did not want any part of a downtown location. According to Scott Toombs of the Rouse Company, "we reminded them that they've prospered in our suburban malls, and they owed us one" (Urban Land Institute, 1979).

Another example is The Corner, a conversion of a vacant department store building into offices and a 120,000 square feet specialty mall in Boston's downtown retail core. The building is filled with stores selling items such as womens sportswear, jeans and greeting cards--all national chains. According to the developer, chain stores are preferred for their reliable reputation and proven success at attracting customers. [To the developer's credit, a lower level was opened providing space for 29 permanent stands selling various crafts, similar to those so successful at Quincy Market. Unfortunately, the operation was not successful (perhaps due to its location below ground level), and it was subsequently closed.]

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[1] "Boston's Retail Phenomenon," Chain Store Age Executive, December 1977.

The apparent negative impacts of new downtown shopping development projects on small businesses have also been noted in Great Britain. A 1977 seminar of industrialists, financiers and planners concluded that "when town centres are redeveloped, it is not only the character which is swept away along with the old buildings. What also disappears--is the opportunity for the small entrepreneur to make a first start." (Personnel Management, May 1977).

F. Projects to Revitalize Existing Retail Districts

Besides the development of new downtown shopping centers, a more common downtown improvement strategy is the initiation of public programs to support the revitalization of existing retailing districts. These "revitalization" (as opposed to "redevelopment") projects have traditionally focused on public improvements to upgrade the image and convenience of the area, and include improvements in parking, transit service and pedestrian amenities (e.g., sidewalks, benches, trees, and fountains) provided by the city. Downtown revitalization projects are often also directed at addressing the problem that "shopping in the central business districts of major metropolitan areas in the United States have been adversely affected for a number of years by the consumers' fears for his life and his property" (Brambeltt, 1975). This is accomplished by a variety of means including improving the physical image of the area, increasing street lighting, increasing maintenance of the area, and increasing the police presence. Public projects for downtown revitalization of this type have been primarily funded by HUD and DOT.

Pedestrian mall and transit malls (streets closed to all traffic except buses) are prime examples of such public projects to upgrade the downtown environment. The early pedestrian malls of the 1960s relied totally upon design improvements as the means of attracting shoppers back to downtown, and some of these projects (e.g., in Pomona, CA and Miami) completely failed to halt the movement of businesses out of the downtown area. More recent experience with the newer transit malls and auto restricted zones have included special events, central promotion and business development activities in addition to the physical improvements, and many of these projects (e.g., in Minneapolis, Philadelphia, Madison and Boston) have tended to show noticeable shifts in business patterns.

A 1978 analysis of the Chestnut Street transit mall in downtown Philadelphia found that new retailers on the mall tend to be national chains, particularly fast-food outlets, stereo shops, and men's clothiers (Edminster and Koffman, 1978). The national chain stores were viewed as contributing to the economic stability of the downtown area while borderline establishments were forced out by increasing rents (Loukissas and Gancarz, 1979). The study also found a distinct shift from stores that appeal to upper-income customers to stores which cater to the young, middle-income customer, although a number of these new outlets were considered to be superior in quality to those which they replaced. Minneapolis' Nicollet Mall has also attracted high quality national chains, although the street is still dominated by traditional, locally-owned stores. However, these stores tend to be of high quality with an up-to-date line of merchandise. New fast-food outlets were observed to move into Minneapolis' downtown skyway system more than to the street-level mall. The new entrance of national chain stores was also observed by local officials following completion of Chicago's State Street Transit Mall (See Downtown Idea Exchange, Feburary 15, 1980) and Boston's Downtown Crossing (See Chapter 2). In Chicago, the new chain stores on the mall include womens sportswear, jewelry, shoe and drug stores and these stores are considered to be higher quality than the independent stores formerly located there.

There can be several reasons why chain stores could be quicker to move in or expand operations in downtown revitalization zones during the transitionary period before project completion. Chains can usually more easily weather any early financial losses occurring during construction of the street and sidewalk improvements. Their marketing and expansion strategies are more likely to be oriented towards aggressive competition when they identify a market potential downtown, as opposed to many existing independent businesses which often provide more personal service for an established clientele.

The addition of new chain stores in downtown areas is often viewed by planners and downtown merchant organizations less than enthusiastically. As noted in Algmin (1980):

> "The appearance of the chain stores, of course, has its good and bad sides. On the one hand, chains have an image. Thus, they help attract customers into the area. And because they normally locate in suburbs, they help downtown compete with suburbs. On the other hand, chains often replace independent businesses, many of which are distinctive ... [to the local area]. And they produce the "canned" effect that makes suburban malls so dull. Chains are also less likely to participate in local marketing efforts and special events, saying 'our way of marketing is not likely to change; it is dictated by our head office.'"

Chain stores are welcomed in downtown primarily to the extent that they represent an upgraded image and quality relative to previously-existing businesses there.

G. Services to Support Revitalization of Existing Business

As will be discussed in the case studies, many of the more recent efforts at downtown commercial revitalization (including pedestrian and transit malls) have been more successful because they encompass programs to assist business revitalization in addition to the public space improvements. Particularly important are programs for store renovations, central management, and private/public cooperation in business development.

In some downtowns, the improvement of storefront and building facades can be an important factor in encouraging visits by shoppers and in creating a positive investment climate. "Even a few eyesores scare customers and potential investors away." Store image improvements can be encouraged by the adoption of facade design standards with the provision of special financing for renovation, business expansion and new development. (The financing can include SBA, HUD and private financing, and is often coordinated by the city economic development office or local non-profit economic development agency.)

Storefront renovation efforts can potentially help stimulate new opportunities for small independent enterprises. Buildings in older business districts are often owned by absentee landlords, outsiders or bank trust departments who are just "coasting," making money without having any commitment to renovations or other improvements. This passiveness can be an obstacle to any successful revitalization program. According to Samuel Beard of the National Development Council:

> "Experience in cities across the country has demonstrated that some mechanism is needed to assure 100 percent merchant/property owner participation in commercial revitalization. Programs with voluntary guidelines seldom get more than one-third of the stores to rehab. This is true in spite of generous incentives. Absentee landlords who have neglected basic maintenance in the past are unlikely to respond to voluntary guidelines."--(Developments, National Development Council, July 1980).

Mandatory design standards force property owners to do something--renovate, sell or lease to someone who will renovate. These options can allow the opportunity for aggressive merchants and developers to give the area new life. (Samuel Beard, in Committee on Small Business, 1977).

Central management and promotion of the downtown retail core represents an attempt to provide the independent downtown merchants with some of the tools available to shopping centers. Whereas shopping centers naturally have a single management to promote the center by advertising and organizing special events there, the concept of a merchant organization actively promoting the business district is surprisingly new to many downtown areas. Central downtown management goes beyond promotion to provide the functions of business development agent, supplemental security services and maintenance services. The central management functions can be financially supported by the city, the merchants/property owners or both. The National Development Council has found that mandatory merchant participation in the downtown organization is highly useful (Samuel Beard, in Committee on Small Business, 1977).

Private/public cooperation in planning and financing is generally acknowledged to be a prerequisite for strong business development downtown. A HUD-sponsored survey of 25 cities in 1977 examined factors affecting the vitality of the different downtown commercial districts and found that contrary to expectations, there was little relationship between the success of a central business district and exogenous factors such as regional differences, metropolitan area size or growth rate, or downtown concentrations of mincrity households. Rather, it was found that cities with public and private cooperation in planning and implementing downtown development programs have been more successful than those cities in which either one of the sectors undertook most of the responsibility (International Downtown Executives Association, 1977). The conclusion that downtown revitalization can occur despite city-wide economic decline, as long as there is an effective coordination of public and private resources, is also made in a review of New England cities (Norton, 1979). The extent to which small businesses are able to play an active role in these private/public partnerships for development remains to be seen.

3. CASE STUDIES

Overview and Findings from the Site Visits

The case studies presented here describe downtown revitalization projects in seven cities: Trenton, NJ; Madison, WI; Memphis, TN; Baltimore, MD; New Orleans, LA; Portland, OR: and Boston, MA. These sites represent a range of city sizes and geographic locations. Each of the projects described here (with the partial exception of one of the New Orleans projects) represents an attempt to bring new activity to an existing retail district, rather than the construction of a new shopping facility (i.e., in the terminology adopted for Chapter 2, these are "revitalization" rather than "redevelopment" projects). The techniques employed were usually similar, and included some or all of the following elements: (a) public investments to improve the physical image of the shopping district through expanded pedestrian space, greenery plantings, benches and other pedestrian amenities; (b) improved transit services; (c) centralized management for advertising the retail district and organizing special activities there; and (d) regulations and assistance for building improvements. Most of the projects included some form of traffic restriction, as a means of increasing the pedestrian space. The projects were funded by a variety of services, including the Department of Housing and Urban Development (HUD), the Economic Development Administration (EDA), the Department of Transportation (DOT), local general funds and special assessment or tax districts.

While the case studies presented here cannot represent the full range of nationwide experiences with downtown retail district revitalization projects, they do serve to illustrate some important points. These are:

1. Pre-project Trends. Most of the downtown sites had significant decreases in business activity and losses of stores from the 1950s to the early 1970s, and in some of the cities remaining businesses (mostly small, independents) adjusted to lower merchandise quality and refrained from store improvements in order to survive.

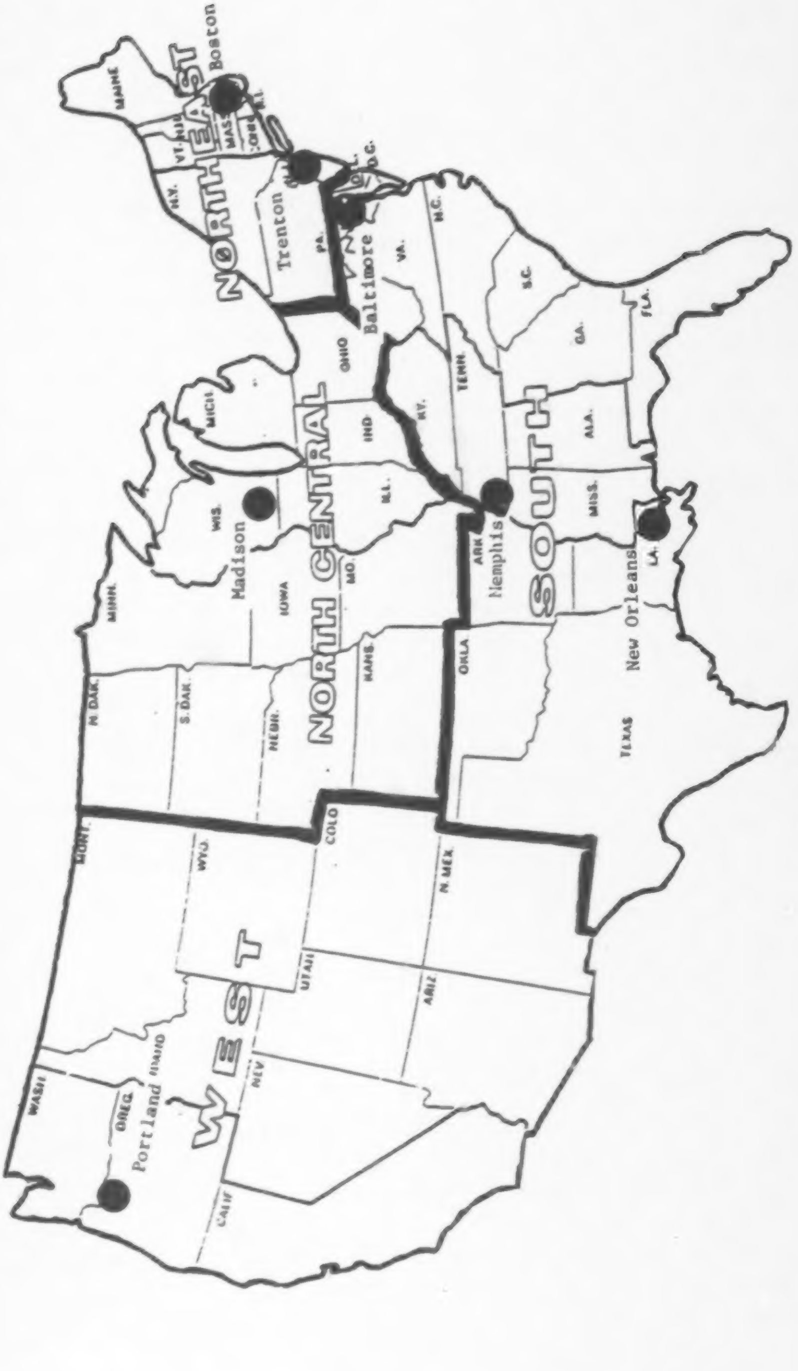
NORTHEAST
NORTH CENTRAL
SOUTH
WEST
Boston
Trenton
Baltimore
Madison
Memphis
New Orleans
Portland
MAINE
N.Y.
VT.
N.H.
MASS.
CONN.
R.I.
PA.
N.J.
DEL.
D.C.
VA.
N.C.
S.C.
GA.
FLA.
ALA.
MISS.
TENN.
KY.
OHIO
IND.
ILL.
MICH.
WIS.
MINN.
IOWA
MO.
ARK.
LA.
OKLA.
TEXAS
KANS.
NEBR.
S.DAK.
N.DAK.
MONT.
WYO.
COLO.
N.MEX.
UTAH
ARIZ.
NEV.
IDAHO
WASH.
OREG.
CALIF.

Figure 1-1

LOCATIONS OF CASE STUDY CITIES

2. Project Initiation. The projects to revitalize the downtown retail districts were sometimes initiated by the merchants (e.g., Memphis), but more frequently were initiated by the city government.

3. Project Planning and Funding. Many of the more successful downtown revitalization efforts have benefited from public-private partnerships in project planning and funding. Projects in four of the seven cities include a special assessment or tax district to raise funds from the area merchants/property owners. The provision of public loan programs to finance store renovation and expansion (as in Baltimore) is another important means of public-private cost sharing.

4. Merchant Organization. The concept of a downtown-oriented organization to promote the downtown retail center is an important means of aiding the small businesses there. In some cities (e.g., Madison) downtown promotion organizations were set up before the start of the revitalization project. In other cities (e.g, Portland) such a downtown-oriented organization still does not exist.

5. Overall Impact. Some revitalization efforts (e.g., Trenton Commons and Baltimore's Lexington Mall) have to date been less successful than others (e.g., Boston's Downtown Crossing and Madison's State Street Mall) in upgrading the image and level of activity in the retail district. While initial physical construction activities are completed, however, in many cases continuing public investments are still occurring and impacts of the revitalization improvements are a continuing process.

6. Changes in Business Mix. The increase in fast food chain stores in several of the downtown retail districts can be interpreted as a response to the rapid growth of nearby office employment, as well as to possible increases in pedestrian activity where public improvements have been made.

7. Attitudes about Business Mix. There is tremendous variation in local attitudes toward the entrance of chain stores downtown. In those downtowns where run-down or low quality stores are present (e.g., Trenton), the entrance of chain stores following initiation of the revitalization project improvements are welcomed for the improved image and level of marketing they bring. Other downtown retail districts (e.g., Madison) are being reoriented as specialty centers in which unique independent stores (rather than chain stores) are sought. In still other downtowns, there has been little change in business type mix and the issue of chain stores versus independent merchants is non-existent.

TRENTON COMMONS

1. Project Setting and Downtown Land Use

As the State capital and the County seat, Trenton is a focal point of government activity in New Jersey. Founded in 1679--and serving temporarily as the nation's capital during the 1790's--the city built its strength upon industrial innovations and the native resources of iron and clay, until its power peaked during the 1920's. "Trenton Makes, the World Takes" has long been the city's proud motto greeting visitors and residents crossing the Free Bridge into Trenton. While the strength of Trenton's position as an industrial supplier declined as a result of the Depression and increasing domestic and foreign competition, Trenton has been able to show positive indications of returning health during the last decade.

Trenton has many fixed and living assets which the City's Department of Housing and Development has been able to use as part of an aggessive campaign to stabilize population and attract new businesses. The city is seven and one-half square miles in size with a 1980 population of 92,124 (down 12 percent from 1970) and an SMSA population of 305,678 (up 0.5 percent from 1970). Trenton faces the Delaware River and is served by the Delaware and Raritan Canal. It is graced with Cadwalder Park which, along with a neighboring residential area, was designed by Frederick Law Olmsted. Public buildings remain as monuments to the families which donated them in recognition to the contributions Trenton factory workers had made to their success.

In terms of retail trade, Trenton was particularly hard hit by the development of suburban shopping malls. A decline became apparent during the early 1960's with the development of some of the first large retail shopping centers. Severe riots shook Trenton in the summer of 1967, further discouraging residents from surrounding townships from making trips into downtown Trenton. The shift to the suburbs continued because Trenton was perceived to have: a high percentage of minorities in its population; a bad school system; a high tax rate ($9.94 per $100 assessed, 60.5 percent of true value); and property which did not have a history of appreciating in value.

Between 1972 and 1977, Trenton lost 123 retail businesses (13 percent), while the remainder of Mercer County gained 242 (17 percent). Still, while almost all other sectors realized a lower dollar sales volume, the more service-oriented sectors, particularly eating and drinking places, managed to show gains. This may reflect the growing representation of State employees in the city's workforce who do not typically live and work in Trenton, but who do use it for lunch-time recreation.

The Trenton Commons area is located in the heart of the older business district approximately two and a half blocks from the Delaware River. It abuts the State capital's office buildings and is surrounded by mixed use development on its other sides. The residential neighborhoods in the surrounding area have established minority populations and are now being favored by a growing Hispanic community.

New developments have been limited in Trenton in recent years. Stagnation resulting fom outward migration and from "urban renewal" type land clearing has not resulted in enough demand for downtown office or retail space to spur new construction. In order to counter further deterioration, the Governor--realizing that the State was the City's only potential big benefactor--issued an executive order to limit the leasing of office space in suburbs for governmental use. The State is also actively considering the construction of a new State office building complex within walking distance of the Commons. Anothe potential development which would impact Trenton's greater economic prospects as well as the health of the mall is the construction of a Civic Center. The Capital Civic Center has been conceived as a facility capable of hosting the large conventions, trade shows, and entertainment events which have been going elsewhere in the region. Emphasizing Trenton's easy transportation access (by air, rail, car, and bus) and a seating capacity of 9,500, proponents in the business community feel it could be a vital link to the city's future.

As a result of the timing of these projects, Trenton faces a potential faltering point in its development. The potential to launch a new wave of development--of which the Capitol and the Commons could serve as established anchors--exists but is not yet guaranteed.

2. Project Objectives

The primary justification used by the Trenton City Council in allowing the establishment of an auto-restricted zone in the heart of the State capital's central business district was to find the highest and best use of the "streets and the parts thereof" involved. Their primary objective was to stimulate economic development by improving the pedestrian environment. The criteria for identifying the appropriate use of the streetspace was based on stated goals of:

- removing the health hazard to pedestrians constituted by the proximity of automobiles and trucks
- improving the safety of the pedestrian environment
- benefit to the public, the municipality, and the adjacent properties.[1]

The City was specifically invested with this authority by the State of New Jersey under legislation setting public policy applicable to all municipalities and counties.[2]

The interests of local merchants are strongly represented in Trenton. The primary objective of the merchants in supporting project implementation was to stabilize the downtown core and to thereby curtail the steady loss retail trade to the surrounding suburbs which had plagued the city for over three decades.

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[1] Rev. Ord. Supp. June 1975, Chapter XIXA, 19A-1, Trenton Commons Pedestrian Mall.

[2] Public Law 40:56-68; Article 5: Pedestrian Malls. Effective August 17, 1972.

3. Project Description

A. Physical Improvments

The Commons is a two-block pedestrian mall on State Street. Its quarter-mile length is bounded by Warren and Mercer Streets and lies in the heart of the central business district. The project was conceived in 1972, and constructed over 1973-1974. The modest size of the project is in keeping with the scale of the retail core, although Phase II plans to extend the mall further towards State Government buildings have been entertained.

When the street was closed to general vehicular traffic and given over to pedestrians, a number of street-level improvements were made to enhance the pedestrian environment. These changes included: the removal of sidewalks and curbs; brick-type paving of the mall area; installation of canopied seating areas; signing to regulate mall use; erection of concrete bollards to discourage vehicular activity; and special lighting fixtures for illumination and aesthetic purposes.

The seating arrangements were modified in 1976 in an attempt to discourage loitering, since loitering was perceived to be a problem by both merchants and shoppers in the area.[1] The canopies were removed and trees were planted in their place.

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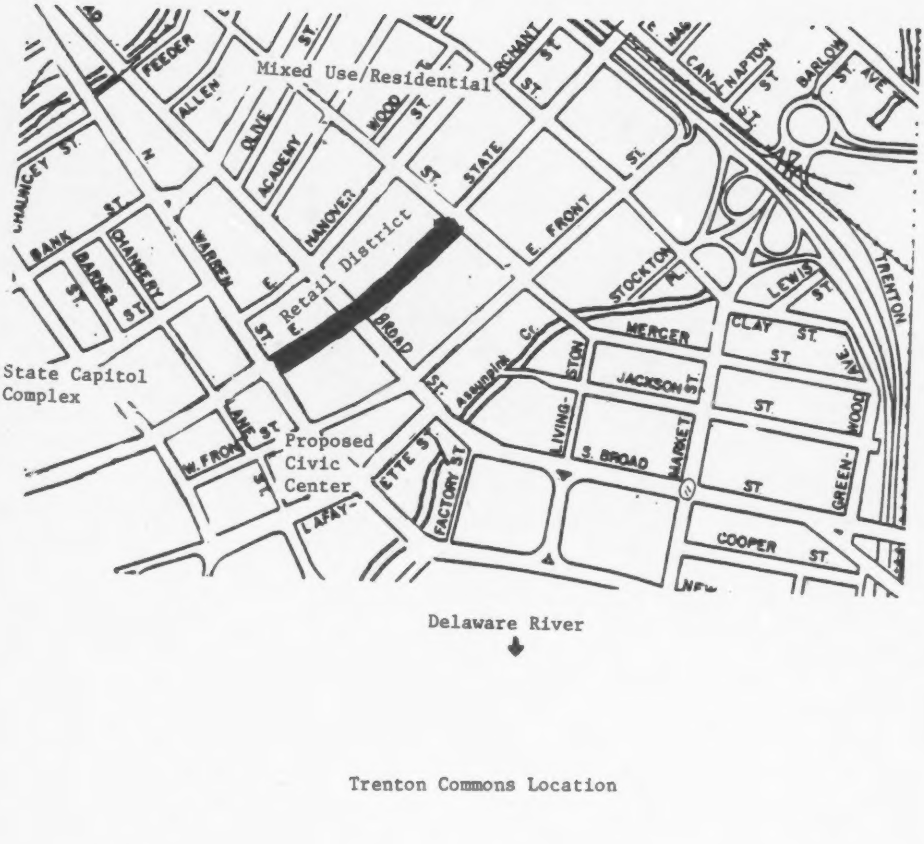
[1] In August 1976, questionnaires were distributed to 25,000 government employees working in reasonable proximity to the Commons by the Department of Housing and Development of the City of Trenton: local private firms were also surveyed. Summaries of the results may be found in a report by the Delaware Valley Regional Planning Commission, Auto-Restricted Zones in the Delaware Valley Region: An Evaluation of Trenton Commons and Chestnut Street Transitway August 1977.


Mixed Use/Residential
Retail District
State Capitol Complex
Proposed Civic Center
FEEDER
ALLEN
OLIVE
ACADEMY
WOOD
HANOVER
STATE ST.
E. FRONT ST.
CHAUNCEY ST.
BANK ST.
CHANCERY
BARNES ST.
WARREN
N.
E.
BROAD ST.
W. FRONT ST.
LANE
LAFAYETTE ST.
FACTORY ST.
Assunpink Cr.
LIVINGSTON
S. BROAD
MARKET
MERCER
JACKSON ST.
STOCKTON
LEWIS ST.
CLAY ST.
GREENWOOD AVE.
COOPER ST.
NEW
CANAL ST.
NAPTON ST.
BARLOW ST.
TRENTON AVE.
Delaware River
↓

Trenton Commons Location

Traffic signals have been retained where Broad Street intersects the mall in order to facilitate pedestrian movements. This feature, combined with a new modern-design newsstand and service by several public transit bus routes, helps to underscore the project's objective of encouraging pedestrian activity in the retail core, particularly at lunch-time. When the two-block portion of State Street was shut to allow for the mall, traffic was rerouted around the perimeter of the project.

B. Operations and Management

The Trenton Commons Commission is a volunteer group made up of merchants and public servants with an elected chairman. The Commission uses special assessment revenue for advertising and promotion and to maintain a second-floor office on the mall with a staff consisting of an executive director and a secretary.

The Commission interfaces with the New Trenton Corporation and the Trenton Business Assistance Corporation. The NTC deals with a larger geographic area, but is similar in its concerns. The TBAC "helps small businesses to obtain long-term fixed-asset loans from banks with SBA loan guarantees.".

The Commission was formed to parallel the role of a merchant's association at a private shopping center. Its mandate is to provide the strong central management and to make the cohesive decisions necessary to compete with private developments.

The Commons project has been sporadically served by a shuttle loop bus system which was designed to attract lunch-time shoppers from nearby government offices to the mall. The "Cricket Line" began operations in April of 1977 with a 10-cent fare. It was felt that the higher frequency of service and low fares would be able to induce trips which the regular Mercer Metro service had not (with a 30-cent base fare). The Cricket Line was

Trenton Commons

SOUND
DISCOUNT

Trenton Commons: Store Facades and Design Elements subsidized completely by local merchants[1] and used specifically as a promotional tool for the Commons. Response was limited with approximately 75 passengers a day and vehicle productivities of 25 passengers/vehicle-hour. The service was discontinued in February 1978 when Mercer Metro introduced a free-fare program during the mid-day off-peak. When that program was suspended, the Cricket Line was re-established in March 1979. Promotions were undertaken to bolster ridership but were not adequately successful, leading to subsequent curtailment during the following year. This failure may be attributed in part to the inflexible and short lunch breaks that constrain many of the employees in the area. While bus service made lunch-time shopping trips feasible, it was not enough to cause the area to be perceived as either convenient or attractive by a significant number of new shoppers.

4. Financing

The Trenton Commons project required approximately $1.8 million for implementation. This cost was divided as follows:

Federal (HUD Community Development Block Grant)	22%
State	22%
City	44%[2]
Special Assessment	12%

The $400,000 Community Development Grant was technically administered under the Open Space Land Program through the State Bureau of Outdoor Recreation because of the site's recreational and historic merit. The State financed its share through a bond issue and an appropriation from General Revenue. The City's contribution is complicated by the fact that it represents funds from an existing urban renewal program (so there is a hidden Federal contribution there).

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[1] See the Trenton Commons Commission's "Newsletter: February 2, 1977" for further operating details.

[2] Includes federal urban renewal funds.

Maintenance costs for the mall are financed out of a special tax assessed on property with access to the mall. This amount (approximately $70,000 a year) is used to off-set day-to-day costs of all kinds but ends up being used primarily for staff salaries as well as advertising and special promotions, including a semi-monthly newsletter.

5. Impacts on Business Conditions

As noted earlier, the City of Trenton peaked in wealth during the 1920's and then declined until conditions became severe during the late 1960's. While this downward trend continued into the early 1970's, recent surveys indicate that Trenton may indeed have "bottomed out" and is now on its way back. A survey of new business ventures conducted in the fall of 1980 by the City showed new businesses starting at a rate of two per week during the August 1979 to August 1980 period.

While many large department stores either collapsed or left the older business district (including Litt Brothers, Arnold Constable, Nevius Voorhees, and Sears), Dunhams has remained as an anchor to the Commons. It has survived the low point which the Commons hit about five years ago with approximately 15 vacancies to see a relatively low vacancy rate currently (approximately five vacancies). Fortunately for Trenton, Mervin Platt (of Platt and Plattingers which merged with Dunham's) is a native to the area and is both well-connected in the larger business community and willing to be active in civic concerns. Platt is particularly interesting because he is the anomaly in business that can prove to be the critical difference to a project under these conditions. Utilizing the expertise and capital base developed from the construction and management of multiple east coast regional shopping centers, he brings an understanding that the district's recovery time may be 12 to 13 years and the financial backing to wait that long. He brings these assets to the Trenton Commons Commission of which he serves as Chairman and helps to give it the bullish attitude necessary to attract additional businesses.

The strength of Dunham's leadership, combined with the support of the Trenton Business Assistance Corporation and the aggressive efforts of the City's Department of Housing and Development, appears to have helped stabilize the mall after an uncertain beginning. One thing which may have originally hurt the Commons was that only 25 percent of the stores are owner-occupied. The remaining 75 percent was subject to the initial desperation of owners who needed to fill their space, and the difficulty of this task led to some relatively indiscriminate choices. While vacancies and discount stores still noticably mark the development (see preceeding photos), chain stores now anchor it.

Chain stores are paradoxical indicators of a project's health and are thus not viewed unfavorably by those closely concerned about the Common's success. Trenton, like many older cities with aging commercial districts, was once a home to the strong independent retailer, the "mom and pop" businesses which remained in the same location for generations, and many feel the loss of that flavor. On the other hand, many of those which remained did so out of inertia rather than commitment, were resistant to making aggressive management decisions (such as facade renovation, changing product lines, etc.), and as business declined began to drawn down their working capital. This led to a deep structural decay in many of these businesses and left them in a position where it is not clear that they could play the kind of role required to turn a commercial district around. Chain stores, on the other hand, are usually financially strong, are aggressively managed, and are, in themselves, taken to be indicators of an area's potential. Thus, while the Trenton Commons may currently have more "fast food" stores than would be deemed ideal by some, those chain stores and others may provide the consistency necessary for attracting the shoppers who want to be assured of a certain quality and familiarity in the product line. Chain stores may also give a project leeway by stabilizing it and allowing it to "buy time" while economic momentum builds for other reasons.

In summary, the Trenton Commons is not an unqualified success, but an important turnover appears, according to early returns, to have begun. Solid physical design has been supported by good joint management by the public and private sectors. Revitalization of the area is a commitment which has been made by all levels of government through either funding or direct action or both. While discount stores mar the area's impression of economic vitality, turnover rates have dropped. Fast food and other chain stores may not be the universal first choice of businesses for the Commons, but during this phase, they provide stability. Eventually, they could be displaced by other independent businesses, but for now they are making a solid contribution to reducing the vacancy rate and attracting lunch-time patronage. Ultimately, they may deserve some of the credit for building the market which the baker and the restauranter[1] do not yet perceive.

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[1] These were the two retail business types which were felt to be most strongly lacking by area employees responding in the questionnaire (see footnote 3).

MADISON-STATE STREET MALL/CAPITOL CONCOURSE

1. Project Setting and Downtown Land Use

Madison, the capital of Wisconsin, has a 1980 population of 170,600 (down 1 percent from 1970) and an SMSA population of 318,866 (up 10 percent from 1970). The two largest employees downtown are the University of Wisconsin and the State government. Downtown Madison has traditionally been a center of commercial activity as well as traffic congestion, in part because of its location on a narrow isthmus between two lakes, which causes most vehicular travel accross the city to be funnelled into that isthmus. The traditional Center Business District includes the Capital Square around the State capital building and the 8 block length of State Street, which connects the University of Wisconsin Campus with the capital. As of 1960, three major department stores were located on these streets (Manchesters and J.C. Penney on the Capital Square; Montgomery Ward on State Street). By 1981, only J.C. Penney remained.

Downtown Madison has experienced a pattern of decline through the 1960's and early 1970's as the market for its retail service activities was intercepted by the growing shopping centers on the fringes of the city. At the same time, increasing problems of congestion and inadequate parking weakened the appeal of the CBD retail center to all market segments. The declining downtown retail base was particularly weakened by the opening of two very large regional shopping malls on the city's periphery in the late 1960's. These two malls have each drawn more shoppers than downtown Madison.[1] In contrast to the relatively compact layout and plentiful parking of the malls, downtown Madison was viewed as inconvenient for shopping due to the distances within it (especially along State Street) and limited parking availability.

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[1] Belden 1980 CMS, in "Know Your Market", Vol. 3, No. 1, Madison Newspapers, Inc.

In addition to the State Street Mall/Capitol Concourse project described here, several other major downtown projects act as integral parts of the overall downtown revitalization effort. The completion of a new major state office building near the Capitol Square in the 1970's has substantially increased the base of office employment within walking distance of the retail core. The Civic Center, an $8.8 million project completed in 1980, involved the conversion of the old Montgomery Ward building and the adjacent theater on State Street into a arts and entertainment center including 3 theaters and the new home of the Madison Art Center. The Civic Center was seen as the focal point for the downtown improvement package, which includes the mall project. One block behind the Civic Center is Capitol Centre, a $25 million development project (supported by a HUD Urban Development Action Grant) now in beginning construction stages. The project includes apartments, commercial space and a public parking ramp.

2. Project Objectives

The project was conceived by the City Planning Department as a major component of an overall strategy to revitalize Madison's downtown area and as a means of satisfying objectives set by the City council,[1] which included:

1. Maintain the Madison CBD as the center of government, financial and professional office activity, and as a specialized retailing complex serving the region as well as the general retail needs of downtown residents, workers and students.
2. Discourage automobile traffic from travelling through the central city.
3. Create patterns of land use that will encourage the use of a mass transportation system.
4. Provide safe, convenient and comfortable pedestrian circulation within the intensively developed portions of the city.

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[1] "Objectives and Policies For the City of Madison", adopted by the Common Council, October 1975.

With the construction of major regional shopping malls on the city's periphery, it was recognized that shoppers habits were changing and that cosmetic beautifications to downtown would not be sufficent to refocus those habits. Rather than fighting the shift of general shopping to the outlying malls, the State Street Mall/Capitol Concourse and the Civic Center project together with intensive activity programming and promotion, were aimed at supporting the downtown retail core as a center specially oriented for speciality shopping, restaurants and entertainment. A strong private-public partnership guided the evolution of the project conceptual design.

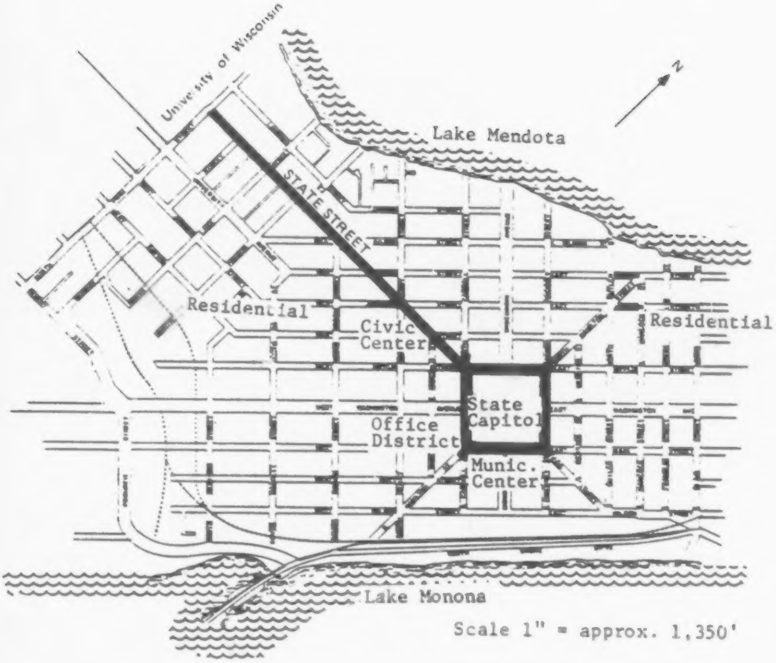
3. Project Description

A. Physical Characteristics of the Project

The State Street Mall/Capitol Concourse project includes a pedestrian mall, a transit mall and a "semi-mall" which provides preferential treatment for buses and bicycles. The concept was conceived in 1967, the plan was developed in 1973 and construction was started in 1974.

The first phase, completed in 1974, was a two block pedestrian mall on the end of State Street (800 and 900 blocks) at the edge of the University of Wisconsin. The mall is connected to the campus by a pedestrian bridge over Park Street and functions as an extension of the campus. The center areas of the mall are dominated by planters, patios, benches, a fountain, a clock, and several raised structures usable as a performing stage. A portion of the mall is reserved for street vendors.

The second phase, completed in 1978, included the development of a two-block transit mall on the other end of State Street (100 and 200 blocks) near the State Capital. Sidewalks were substantially widened and the remaining narrow street space was closed to all vehicles except buses. The new sidewalks are of brick and decorative concrete, and there are many trees, benches, information kiosks and bus shelters. The new Civic Center theater and museum complex is also located on one of these blocks.


University of Wisconsin
N
Lake Mendota
STATE STREET
Residential
Civic Center
Residential
State Capitol
Office District
Munic. Center
Lake Monona
Scale 1" = approx. 1,350'

State Street Mall and Capitol Concourse
Madison, Wisconsin

The other element of Phase II was the Capital Concourse project affecting the eight block "Capital Square" surrounding the State Capital park. A series of actions were taken in order to improve the pedestrian environment on those shopping streets and minimize vehicular traffic there. Traffic was largely shifted to an alternative outer traffic loop one block outside of the Capital Concourse. Streets entering the Capital Concourse were necked down (narrowed severely at the point of intersection) and traffic signals were set to make it more difficult for cars to enter and leave the Concourse. Benches, bus shelters, information kiosks, reserved pedler spaces and large decorative flags were placed to improve the amenity, atmosphere, and visual image of the area.

Phase III, completed in 1981, extends the State Street transit mall for the four middle blocks to connect the existing transit mall with the pedestrian mall.

B. Operation and Management

The Central Madison Council (originally the Central Madison Committee) was formed in 1972 as a non-profit volunteer membership organization focusing specifically on promoting issues, projects and programs to revitalize the downtown area. It has about 160 members and includes about half of all the businesses downtown. The organization was formed at the time when the conversion of downtown streets to a mall was first being considered, and businesses became concerned about impacts of proposed mall plans. The Council plays an active role in promoting the downtown shopping district and in cooperating with the city to improve the area. The Council sponsors the "Maxwell Street Days" sidewalk sales event and the parking validation program (discussed later). Participation in both activities are open to all downtown businesses, but are more expense for non-members of the council.

An integral part of the State Street Mall-Capital Concourse project was the creation of the position of Mall Activities Coordinator. The coordinator is responsible for programming a constant stream of entertainment (including weekly concerts) and special events on the Mall and Concourse, and functions as a vital link between the business community and the City's maintenance crew. A Mall Operating Committee, consisting of merchants, street vendors and citizens acts as a board of review on issues concerning activities on the mall. The Mall Activities Coordinator position was originally run by the Central Madison Council, but was shifted in 1979 to the City Public Works Department in order to facilitate cooperation from the City Departments of Traffic Engineering, Streets, Police, Parks and Forestry, and Electrical Engineering, as needed for various activities and improvements. An annual calendar of major activities is planned jointly between the Mall Activities Coordinator and the Central Madison Council (and with the University of Wisconsin for the lower State Street pedestrian mall).

All responsibility for maintenance of the area is the responsibility of a special full time crew working within the City Park Department, including the equivalent of 2 1/2 full time employees plus seasonal aides.

As part of the effort to encourage shopping throughout the downtown area, special downtown shuttle buses run through the transit mall and Capital Concourse. The service is known as the "Nickelodeon", although the price has since been raised from 5 cents to 10 cents. In addition, 64 downtown businesses have recently joined the "Park on Us" program, entitling their customers to free parking at any of 5 city-owned attendent parking locations. The city is reimbursed the cost of the parking program by the merchants, as part of a promotional effort operated in cooperation with the Central Madison Council.

Street vendors operate in the pedestrian mall at the University end of State Street and on the Capital Concourse. They are licensed and assigned locations from among 62 legal spots.[1] Their operations are restricted to handcrafted or homemade merchandise, or food, in an effort to minimize competition with the established businesses in the area. They are viewed by the city as an important means of bringing life to the streets, despite some unpopularity with the merchants.

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[1] A vendor's license cost $30/year and space on the mall rents for $5/month.

As part of an ongoing effort to upgrade the image of the area, the Madison Plan Commission had earlier adopted "remodelling and new construction guidelines for State Street and the Capitol Square".[1] The regulations include restrictions on building heights and guidelines for building facade remodelling. Originally, all new construction or exterior remodelling projects were also required to include a storefront canopy over the sidewalk, but that requirement has been dropped. A design review process has since been set up to help preserve the character of the area.

4. Financing

Construction costs for Phase I, II and III were about $7.8 million. Phase I ($750,000) was funded locally. Phase II ($5.4 million), was funded by an Urban Mass Transportation Administration (UMTA) capital grant of 1 million (covering bus shelters and a share of the costs of paving the transitway and providing new lighting), and the remainder locally. The local share was paid for half out of citywide property taxes and half by a special assessment district covering all businesses within one block of State Street and the Capitol Concourse. The assessment was for a one-time charge to be paid by affected businesses, with financing available for a period of 10 years. Assessments were by square feet of land; stores not fronting on the improved streets paid just 30 to 70 percent of the level assessed to those that did front on the improved streets. The funding formula was drawn up by a special private-public Citizen Advisory Committee, created by city ordinance. Construction to modify downtown traffic patterns to divert traffic away from the Capital Square was a separate $600,000 project, funded 70 percent by the Federal Highway Administration (FHWA).

Phase III costs are estimated to be around $2 million, of which $560,000 was covered by UMTA and the rest by the local financing formula described above.

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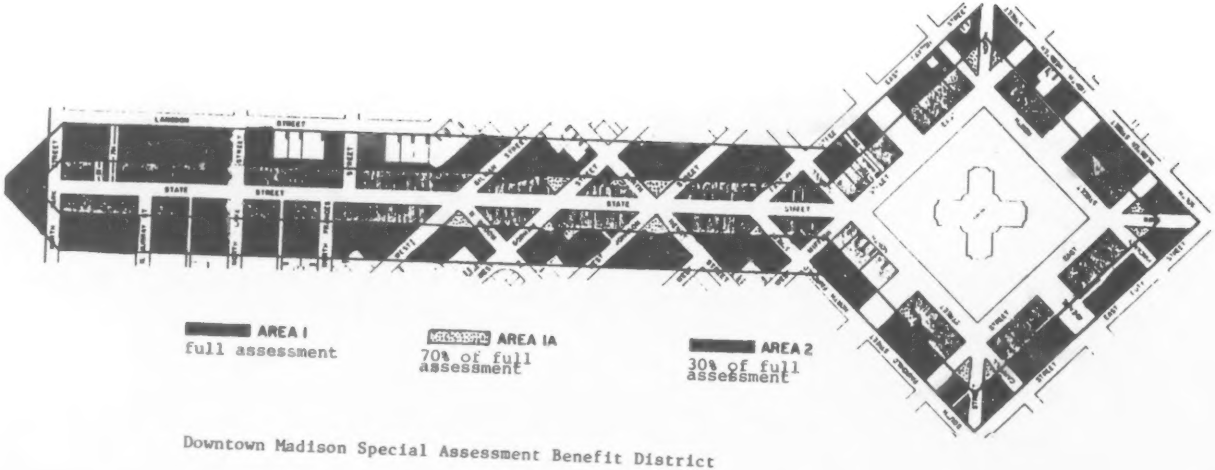
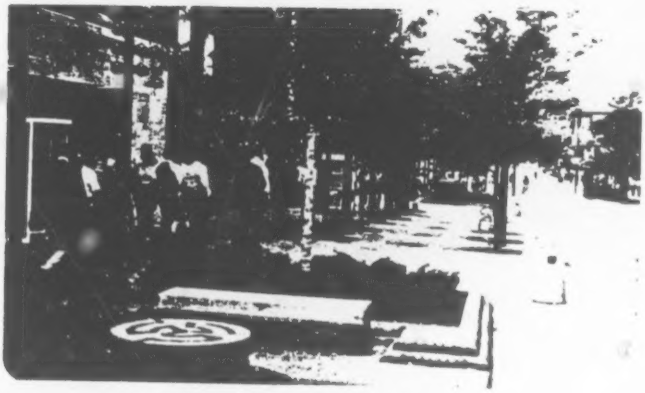
[1] Adopted by the Madison Plan Commission, September 23, 1968; modified December 7, 1970.


LANGDON
STREET
STATE
STREET
AREA I
full assessment
AREA IA
70% of full assessment
AREA 2
30% of full assessment

Downtown Madison Special Assessment Benefit District

Pedestrian Segment of Mall



New Civic Center on the Mall

ORPHEUM
TAKE THIS JOB AND SHO

Transit Segment of Mall

A continuing budget of over $100,000/year pays for routine maintenance. This cost was paid for by the City through 1980. Starting in January 1981, the property owners on the mall and concourse are covering one-third of these costs through an annual assessment, computed on a basis proportional to that of the initial construction assessments. Excluding the share of these costs paid by the city and the state (as property owners on the improved streets), the private sector is covering 17 percent of the total maintenance budget. For the average small store with a 33 foot storefront , the assessment amounts to $100 or less annually. Stores are responsible for snow removal for the first 12-feet of sidewalk space from their storefront.

The Mall Activities Coordinator is a salaried city employee working through the city Department of Public Works; the position was formerly funded by the Central Madison Council.

5. Impacts on Business Conditions

Many businesses were initially apprehensive about the concept of eliminating or reducing auto traffic in front of their stores, and the loss of curbside parking was a particular concern. Since construction of the transit mall, these concerns have generally diminished although direct customer access has remained an issue for some services (such as a typewriter repair shop) and upper floor professional businesses. The numerous street vendors have also not been popular with many existing merchants, since the vendors pay no taxes on assessments and do offer some competition to them. Despite all of these complaints, the mall and associated activities in it have helped bring about a significant process of store transformation now occurring in the project area.

Since completion of Phase II, there has been a noticeable increase in the number of restaurants located along State Street, the Capital Concourse and nearby streets. Several restaurants have moved into long-vacant second story spaces. A noticeable ripple effect, including restaurants and shops nearby but not fronting on the State Street Mall, has been observed. These are almost all independent businesses. In addition, several art galleries have located nearby the Civic Center.

Three local stores previously located in suburban locations were observed to have either moved to or opened branches downtown since completion of the Phase II Mall. Another small local chain closed two stores at shopping malls while keeping its downtown store open. Many of the new stores opening are locally owned; just one regional clothing chain store was observed to have moved in since the mall was built, in addition to a national jeans chain store already there. In general, there were never many chain stores located in downtown Madison and there is little evidence of any significant influx of them following the mall project. It appears to be that many large chains are concentrated in the shopping malls, having expressed relatively little interest in downtown Madison. The merchant association is interested in supporting the concept of downtown as a specialty center with unique stores, restaurants and entertainment opportunities, which is recognized as clearly relying more upon local enterprise than on national firms.

The closing of the large (4 story) Wolf-Kubly-Hirsig housewares store in the 1970's and even the recent closing of the Manchesters Department Store in 1980, both on the Capitol Concourse, are not viewed by either the City or the Central Madison Council with any alarm. Rather, these changes are seen as further evidence that the downtown can only thrive as a center for specialty shops and entertainment. The Wolf-Kubly-Hirsig store is being converted into a new State Historical Museum, which together with the State Capitol across the street and the Civic Center two blocks away is expected to increase foot traffic and make upper State Street a center of entertainment and visitor activity. The Manchesters building is to be converted into a bank building, with ground level retail. There is hope for a future mid-block mall in the alley behind it. The Penneys Department store on the Capital Concourse remains doing well, having eliminated all durables and children's clothing from their merchandise line.

MEMPHIS - MID-AMERICAN MALL

1. Project Setting and Downtown Land Use

Memphis, with a 1980 population of 646,356 (up 4 percent from 1970) and an SMSA population of 806,734 (up 8 percent from 1970), is the urban center of a large cotton and general agricultural region. Since World War II, downtown Memphis gradually lost population and retail activity to the eastern suburbs, although it maintained a fairly stable working population (mostly office employment) of 30,000. There is also a concentration of 37,000 workers in the mid-South Medical Center area, located one mile away.

The major concentration of downtown retail establishments is along Main Street, site of the Mid-America Mall. There are also retail frontages along most of the east-west streets which cross the retail section of the mall (southern-most seven blocks), although these are frequently interspersed by parking lots and garages. Hotels and entertainment were once a major function of downtown Memphis, but most of these facilities had since closed down. Apart from the retail establishments, downtown land use is now dominated by government and commercial buildings. The government and commercial buildings are clustered around the Civic Center Plaza at the northern end of the mall. There are several major commercial office buildings in the downtown, most of which front on the east-west blocks which intersect the mall; one of these structures, the National Bank of Commerce, is located on the mall itself.

There have been a number of important developments, both public and private, in the downtown area over the past few years:

- several new apartment/condominium complexes (underway)
- additions/improvements to major office buildings
- renovation of historic Peabody Hotel (still underway)
- restoration of the Orpheum Hotel
- redevelopment of the historic Cotton Row commercial district

- restoration of Beale Street National Historic District (underway)
- construction of the Mid Island Park (underway) and monorail

Memphis' Center City Commission has had a role in the financing of all these projects, either through the channeling of federal grants and other public funds or through the issuance of industrial revenue bonds.

Downtown Memphis has been in a long state of decline, and by the early 1970s, much of the retail market had left the downtown, as residential population and employment spread outward from the central city and new suburban shopping malls opened. Lowenstein's and Goldsmith's department stores remained downtown, while Gerber's Department Store had gone out of business. Downtown retailing has for some time been oriented toward a relatively low income market. In spite of the city's dramatic overall decline, however, the cotton industry retains a strong base in Memphis (3 of the nation's top 5 cotton companies are located in the City). Another strength of the downtown is office employment, which has remained fairly stable in the government sector and in banking.

2. Project Objectives

The primary objective of the project was to support downtown retailing: to encourage "upgrading" of downtown retailing in terms of mix of stores, merchandise, appearance and ultimately the markets attracted to the downtown area. Improving pedestrian circulation was a secondary project objective. The mall was not specifically oriented toward the support of small business per se, but rather to revitalize retail businesses of all sizes in the project area, and to act as a catalyst to the overall redevelopment of the larger downtown area--note that several other downtown projects are currently underway.

3. Project Description

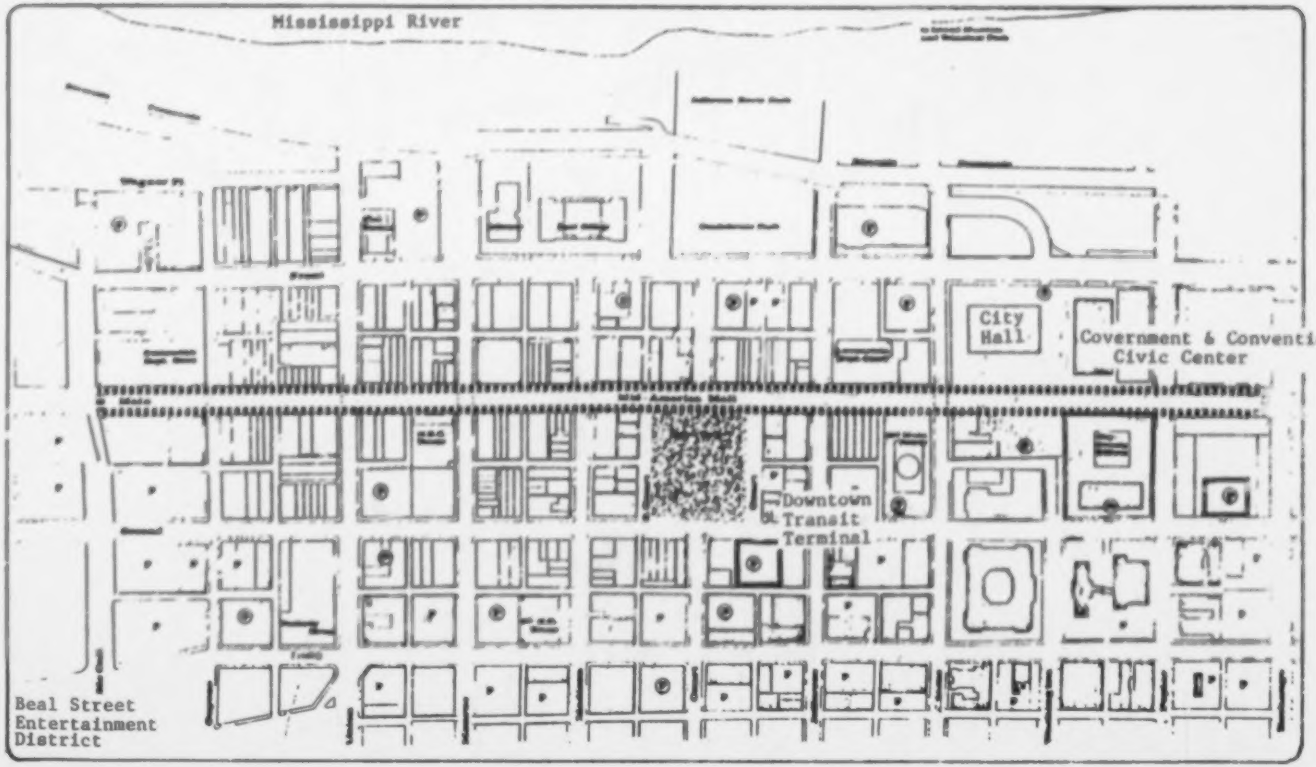
A. Physical Characteristics of Project

The Mid-America Mall is a twelve-block pedestrian mall on Main Street. The project was conceived in 1973 and constructed from 1974 to 1976. The three northern-most blocks of the mall form part of the Civic Center plaza, and are surrounded by public buildings. Hence, the retail section of the mall is actually nine blocks in length (see Figure 1). Vehicle traffic is permitted on all of the east-west cross streets. A major physical feature of the mall is Court Square, which is located just to the north of the mall's mid-point, and includes a park, fountain, stage platform and grandstand seating. The park was redesigned in conjunction with the planning of the mall. Project design elements and amenities include the following: eight large and eight small concrete-beamed kiosks (including an information booth); a block-long water display with surface relief creating places for seating; numerous trees and other plantings; drinking fountains, building directories, calendars of events, area maps, public telephones, and benches.

Most of the mall is surfaced exclusively with brick paving. The mall was originally intended to include a transitway. The area which was to serve as the transitway is differentiated from the regular paving material on the southern most blocks of the mall, which were completed first.

The design of the mall can be considered moderately successful. Compared to other streets in the downtown, the mall is noticeably more attractive. While no pedestrian count data are avaiable, the mall is active throughout most of the daytime, and particularly at lunchtime. This traffic is well-accommodated and there are ample facilities on the mall which provide pleasant places for sitting. The park incorporated in the Court Square area is particularly attractive. The mall is well-maintained. There are perceived to be a number of design and maintenance problems associated with particular features and amenities on the mall, (e.g., pavement, insufficient landscaping, graphics). Plans for the redesign of these elements are currently underway, as part of the Riverfront Public Spaces Plan.

More recent (1979) public projects to support the mall activity include construction of a downtown transit terminal, and improvements along Madison


Mississippi River
City Hall
Government & Convention Civic Center
Downtown Transit Terminal
Beal Street Entertainment District

CBD Core

Mid-America Mall Location

Avenue which links the new terminal to the Mid-America Mall. In addition, a shuttle bus between the mall and the Mid-South Medical Center employment area was initiated.

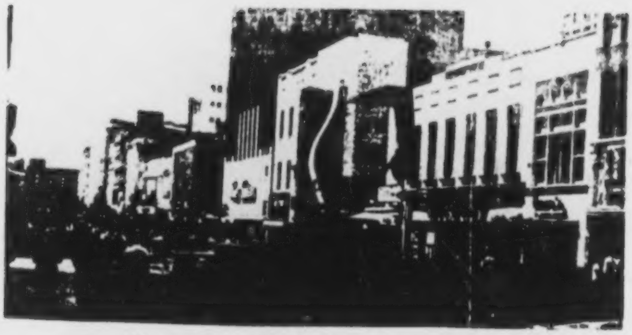
B. Management

In 1980, the Mid-America Mall Commission, which had responsibility for mall management functions, was merged into the Center City Commission, which is involved in a variety of downtown development activities. The Commission is a quasi-independent public agency which was formed in January of 1977 to coordinate public efforts to assist private sector redevelopment of the downtown. The Commission is composed of seven members who are appointed by the mayors of the city and county. At least six of the members must be property owners or tenants within the downtown area. The mayors and a representative of the City Council and County Commission also serve on the commission as ex officio voting members.

A staff of eight persons is currently authorized to administer the direction of the commission. These include an executive director, an assistant director, a manager of design and promotions, a manager of marketing, a promotions and marketing specialist, a financial specialist and two secretaries.

The mall was initially conceived in 1973 by the Business District Advisory Board, comprised of representatives of the downtown business community, upon whose recommendation the Central Business Improvement District was created. The specific ongoing activities of the Commission which are related to the mall are as follows:

- o general marketing (billboards, public service programs, radio spots, magazine articles)
- o sponsorship of mall events and activities
- o monitoring of independently-sponsored mall activities



View of the Memphis Mid-America Mall

JUST IN Fashions
JUST IN

new retail enterprises --sign and facade improvements

Important Design Elements

ATIONAL WIG
WIGS

traditionally-oriented mall merchants

- o enforcement of mall regulations and design standards
- o routine maintenance

The Commission is very active in the promotion of mall activities. Entertainment is provided on the mall at least 2-3 times per week. In addition, there are a number of special events sponsored and/or coordinated by the Commission each year, including the annual Labor Day weekend, Memphis Music Heritage Festival, a week-long Octoberfest exhibition which is targeted primarily toward downtown employees, and a foreign-theme "Memphis in May" festival.

The Commission's daily management activities also involve the enforcement of mall regulations, which include restrictions on noise, consessions, signage, and sidewalk activity. A special "encroachment" permit from the Commission is required for all business-related activities conducted within the public space of the mall.

4. Financing

The $6.7 million development of the mall was financed locally, through the issue of General Obligation bonds by the City. Property owners within the Central Business Improvements District, which includes the mall area and several adjacent blocks, to finance repayment of the bonds. Three major repayment options are available for these property owners:

- o single lump sum payment
- o payment over a 5-year period at 2-3 percent interest
- o payment over 20 years at somewhat higher interest rate (roughly 6 percent)

In addition to mall construction, there is an annual assessment in the Central Business Improvement District to cover mall operating expenses, including costs for maintenance, general marketing, and special promotional events.

There have not been any special financial assistance programs or tax incentives made available to businesses on the mall. The Center City Commission does however provide several forms of assistance for private development in the downtown including tax free revenue finanacing, and property tax freezes. Through the Center City Revenue Finance Corporation, industrial revenues bonds are issued to finance the private development or redevelopment of downtown projects; these are backed up by project revenues and are exempt from federal taxes, and represent a relatively low cost means of financing private investment in the downtown. A phased property tax freeze program is also applied to new downtown development which meet certain basic requirements. These programs have not been used to finance projects on the mall, and are oriented toward larger projects than typical mall retail development/rehabilitation.

The new downtown transit terminal, Madison Avenue pedestrian improvements and Medical Center shuttle bus were funded by a $960,000 Urban Mass Transportation Administration (UMTA) Section 6 demonstration, grant plus $100,000 from the state and $203,101 from the city.

5. Impacts on Downtown Development and Business Conditions

Downtown Memphis has been in a long period of decline, but is showing signs of renewal. The condition of facilities (structures, sidewalks) is good, and has been improved through the influx of investment in the above projects, as well as street improvements. On the mall itself, building facades and public areas are well-maintained. There is a sign ordinance in effect on the mall which serves to assure some degree of compatibility among store frontages. This ordinance strictly limits how far signs can project from buildings, and also establishes limits on the size of signs and the amount of window space which may be occupied by signs. There does not appear however to have been very much investment on the part of the mall merchants in the modernization or upgrading of facades or signs which, in spite of the ordinance, vary significantly in terms of size and style.

On the mall itself, retail sales appear to have stabilized since the opening of the mall. The two major department stores on the mall have reported informally a small increase in retail sales. In the first year after completion of the mall, approximately 25 new businesses opened, and these were dominated by fast food and small speciality shops catering to the new crowd of office workers. More generally, business turnover since the opening of the mall appears to have been significant (as high as 30-40 percent according to the Center City Commission), though in recent years turnover seems to have diminished. A survey of storefront occupancy changes from 1977-1979 found that 21 new stores opened and 11 closed in the downtown area, of which 12 of the new stores that opened and 3 of those that closed were on the Mall. The biggest gains were in eating and drinking establishments, specialty foods and personnel services.

Based on available local information, it is not possible to determine whether there is a systematic pattern underlying business turnover on the mall, in terms of the ownership type or size of businesses which have been affected. It has been noted by Center City Commission staff that there have been particular locations which have experienced a succession of turnovers, and that the small businesses which have opened and closed have tended to be somewhat lacking in their merchandising, marketing and display efforts.

Discussions with the Center City Commission staff indicate that overall, mall merchants have been slow to adapt to changes in retail market which have been created by the mall. Specifically, there has been a noticeable increase in pedestrian traffic in the mall among downtown workers, especially during the mid-day lunchtime period, and there has not been a significant effort on the part of the mall merchants to attract this substantial market. Merchandising on the mall remains strongly oriented to the traditional low income market, and there is a lack of restaurants and other enterprises which have an obvious attraction for moderate/middle income downtown workers. There are several exceptions to this general observation among small businesses, notably a successful salad bar restaurant and a new greeting card store which is notable for its attractive exterior appearance and indoor displays. The two major department stores on the mall are oriented toward a broad market which includes downtown office workers.

As a general conclusion, the mall does not appear to favor businesses of any particular size. Those businesses which have benefitted most from the project are those which could adapt most successfully to changing market conditions, characterized by increased volumes of pedestrian traffic, increased lunch time trade, and increased traffic among moderate/middle income workers. While business size may influence to some degree the ability to invest in merchandising and marketing, it appears that such factors as effective management and planning are also critically important. Overall the Memphis experience suggests that small businesses are not necessarily at an inherent disadvantage with respect to their ability to benefit from mall-type improvements.

BALTIMORE-LEXINGTON MALL AND OLD TOWN MALL

1. Project Setting and Downtown Land Use

Facing the Chesapeak Bay, Baltimore is the largest city in Maryland with a 1980 population of 786,775 (down 13 percent from 1970) and an SMSA population of 2,164,853 (up 5 percent from 1970). Baltimore's status within the state is unique as it is not in a county (nor is it a county itself) yet it has the same powers as the counties in the balance of the state.

The City has been attempting--and achieving--a comeback from a long period of industrial decline. Charles Center (which was begun in 1959) marked the beginning of an urban revitalization program in which the city is still actively involved. This renaissance has been heavily dependent on both public and private participation and it has capitalized on the aspects of Baltimore which are unique.

Baltimore is a city of neighborhoods integrated into a whole, but with apparent differences which prevent it from being a continuous mass. The downtown is compact with multiple skyscrapers and little vacant land. The core of the central business district sits to the northwest of the Inner Harbor, and adjacent to the University of Maryland and the city government buildings.

Lexington Street was traditionally a major shopping street in the downtown area, running between the office district to the east and the department stores (on Lexington Street) to the west. In the 1960's important anchor stores and trade which had been indicators of the area's affluence began relocating to suburban shopping mall locations. Seven major regional shopping malls were opened between 1956 and 1976. Surrounded by a beltway which was helping to draw people and business away, the city was looking for a way to help fill "the hole in the doughnut" back in.

The site of Old Town Mall is Gay Street, an inner neighborhood shopping area. In the 1880's, this was the downtown of Baltimore. Since the 1940's the shopping area and residential neighborhoods declined and by 1968 the street was full of vacant storefronts.

While Old Town Mall is located apart from the central business district, Lexington Mall is located near a tremendous amount of development activity both recent and current. Many of these developments have been integral to Baltimore's recovery, adding office space and a sense of economic vitality to the City while attempting to preserve the architectural wealth and the historic flavor of the area. This mixture of past with progress has not been an accident or the result of a comprehensive plan, but the result of private sector activism and intervention into public sector decision making.

2. Project Objectives

The revitalization effort evident in Baltimore today has many objectives, including:

- increasing the city's livability
- re-establishing old neighborhoods with salvageable housing stock
- reclaiming the city's position as a recreation and leisure center
- reintroducing the port into the city's image
- retaining industrial jobs and attracting new business

Baltimore's population and physical plant are sufficient to have required multiple projects, independent but integrated to help to achieve these objectives. Important redevelopment projects in Baltimore include:

- Lexington Mall, a short auto-restricted zone in the older central business district

- Old Town Mall, a thriving pedestrian mall in an inner city minority residential district

- Charles Center, an office and retail complex abutting Lexington Mall and the city's financial district

- Inner Harbor Shoreline Development, a commercial redevelopment of the city's waterfront into a multi-purpose recreation and shopping district

- Coldspring, a joint public-private condominium development

Of these projects, Lexington Mall and Old Town Mall will serve as the focus. The total list could go many times further to include other industrial parks and "shopsteading", and homesteading efforts, but these are among the one's which have proven most citical to Baltimore's successful economic recovery--sometimes, as in the case of Lexington Mall because of their lessons rather than their independent merits.

Lexington Mall was an attempt to revitalize, or at least to stabilize, a major street in the heart of the older business district.

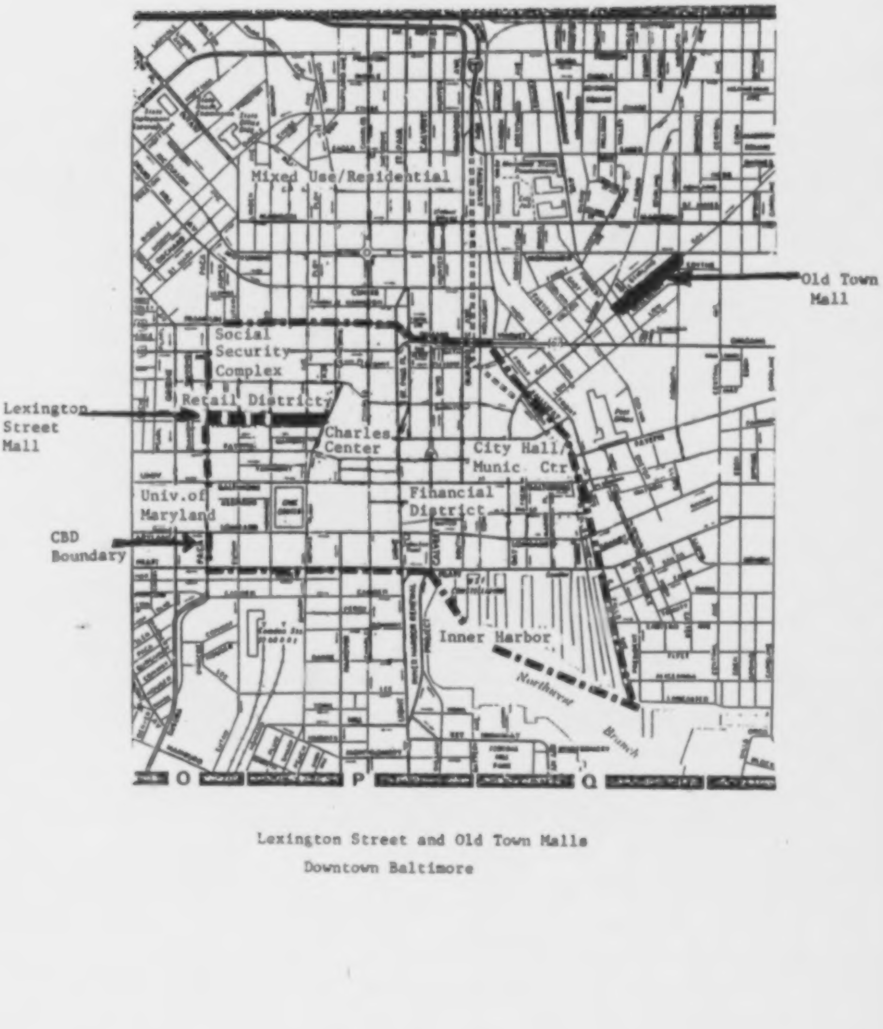
3. Project Description

A. Physical Improvements

Lexington Mall occupies two blocks of Lexington Street between Liberty and Howard Streets in the heart of the central business district. General vehicular traffic is excluded from the mall except for restricted goods movements. Completed in 1974, the mall was a modest attempt at revitalization, with no major design changes imposed on the stores. Physical amenities include lighting fixtures (in a mix of heights to provide informal lighting of seating areas); hardwood benches; trees; concrete standards to break up visual expanses and to discourage vehicular traffic; brick paving and concrete striping to accent the area and to provide visual cohesion. These design elements are tied together to produce a pleasant pedestrian environment. Activity is currently underway to extend the pedestrian space improvements for another two blocks.

The Lexington Mall is not served by any special transit routes, but lies at the center of the downtown which is well served by an existing transit network. When construction is completed on the Baltimore City Rapid Rail System, Lexington Mall will be in close proximity to a key station.

The modest scale project which Lexington Mall represents is a striking contrast to the "future city scale" so evident in the Inner Harbor and


Mixed Use/Residential
Old Town Mall
Social Security Complex
Lexington Street Mall
Retail District
Charles Center
City Hall/ Munic Ctr
Univ.of Maryland
Financial District
CBD Boundary
Inner Harbor
Northwest Branch
O
P
Q

Lexington Street and Old Town Malls
Downtown Baltimore

AY
OUT
Empire WIG

Design Elements of the Lexington Mall: Special Pavement, Lighting, Benches, Planters, and Trees

Charles Center development projects. Inner Harbor sweeps coherently through a multi-block area dominating the waterfront, while Charles Center sweeps upward commandingly (although not to "big city" skyscraper heights).

A project of intermediate scale is the Old Town Mall, completed in 1976. This pedestrian area in an inner city neighborhood commercial district is more than twice the length of the Lexington Mall. Similar to it, Old Town Mall was repaved in brick, and new lighting and landscaping (trees and bushes) were installed. There are several fountains, and a stage for neighborhood entertainment. It has been an extremely successful showcase for the City Planning Department's talents. The Old Town Mall project involved more extensive building changes and public amenities than those provided for in the Lexington Mall Project.

B. Management

The City of Baltimore Planning Department has a general policy of low key, non-aggressive neighborhood management, generally letting interested neighborhoods come to them rather than "recruiting" them into the revitalization program. Lexington Mall required impetus from the department because of its experimental nature. As a result, while merchant initiative can now be relyed upon, some opposition was initially encountered from merchants in setting up Lexington Mall. As a result, the buildings received relatively cosmetic treatment. The only striking contrast to the uneven, non-dynamic facades is a clothing shop: the "Lexington Lady," an example of the potential impact that the other storefronts could achieve if they utilized the kind of comprehensive package which the city employed here. Bold graphics, expansive window space, and attractive merchandizing exemplify the product of a more aggressive management role. On the remainder of the street, the City assumes a passive management responsibility, providing lighting and garbage collection as required. Charles Center/Inner Harbor Management, Inc. is a private, non-profit organization which was originally set up to develop the Charles Center urban renewal project, but is now under contract to the city to develop commercial

Baltimore's Old Town Mall

revitalization in the broader central business district including the area around Lexington Street.

The inability of Lexington Mall to rejuvenate itself provided the Planning Department with the understanding that Old Town Mall would require a more aggressive management effort if the City was going to achieve its objectives. As a consequence, a planner essentially moved into the area for the duration of project implementation. Day-to-day guidance on facade renovation, changes in marketing lines, and capital utilization was provided with tangible effect. The city negotiated with neighborhood leaders in Old Town to agree to mandatory design standards for the 19th Century buildings, and the City Council passed a resolution imposing a penalty on individual merchants who refused to participate and also helped make available special long-term loans for the purchase and/or renovation of store buildings. The mall is maintained by the city's Department of Public Works.

4. Financing

The Lexington Mall required $800,000 to implement and was entirely financed by the City. In planning for the development of Old Town Mall two years later, the use of Federal funds was seen as critical. It allowed the city to support a project for which the budget might not otherwise have been available and it allowed retailers to borrow at subsidized rates. The construction cost of $2.6 million was financed 75 percent from Federal Urban Renewal Funds and Community Development Grants, and 25 percent by the city. Perhaps most importantly, more than $1 million was invested by the merchants in rehabilitating stores. BY using SBA Section 502 loan provisions and HUD Section 312 funds, money was obtained for merchants at below market rates. This was critical because many entrepreneurs from the local area were being encouraged to invest in businesses for the first time. Without generous loan provisions, bank security requirements and prevailing interest rates might well have proved exclusionary. The City chose to use these funds because of the speed and directness with which they could be processed. Local approval, by contrasted, was perceived as a process marred by negotiation and renegotiation.

Both Lexington Mall and Old Town Mall are maintained by the City, in contrast to other communities which have felt that their "revitalized" areas displayed sufficient resilience to support a special assessment.

5. Impacts on Business Conditions

The renovation of Lexington Mall has had little noticeable effect on the mix of businesses. Older merchants who had run high quality operations when the Lexington Market area was a major regional shopping district, subsequently had adjusted downward to discount operations rather than leaving the area. Decreased capital flow and a reduced ability (or willingness) to borrow left them in a generally weak position. Overall, they have apparently been unable to respond to the mild stimulus with which they were provided.

Old Town Mall has, in contrast to Lexington Mall, undergone not only a marked physical transformation, but also a dramatic realignment of ownership. Over half of the 84 building properties in the four block strip changed ownership. The individually-operated stores went from being 99 percent white-owned to 43 percent black-owned--in an area which is predominantly black. Many remaining merchants expanded and modernized their stores. Supported by residential revitalization, this "second effort" became Baltimore's best.

NEW ORLEANS--CANAL STREET AND FRENCH MARKET

1. Project Setting and Downtown Land Use

Located near the southern end of the Mississippi Rover, New Orleans has a 1980 population of 557,482 (down 6 percent from 1970) and an SMSA population of 1,183,606 (up 13 percent from 1970). After many decades of decline, the City of New Orleans is undergoing a strong economic revival. The three industries leading the resurgent economy are oil and gas, tourism, and shipping from the Port of New Orleans. The downtown is experiencing the full share of the City's economic growth. Recent investments by the public and private sectors have totalled approximately $1 billion, primarily in the form of major commercial office, hotel, convention, and retail space. More than 4 million square feet of office space have been added since 1970, with a 96 percent occupancy rate. Another 2.26 million square feet are under construction. During the past 10 years, there has been a 147 percent increase in hotel rooms: 5,400 rooms were added downtown, while 1,700 more planned. An asset of the downtown is its compact nature and its comparatively good transit service. The downtown, and particularly the French Quarter, are notable for their historic tradition and architectural attractions, which are largely responsible for the large numbers of tourists to the area.

Desite the rosy picture of local economic growth, the downtown in many places continues to exhibit the familiar symptoms of urban decay, and faces additional problems associated with the rapid growth. Many of the new developments in the CBD are disruptive to patterns of pedestrian activity and existing land uses, because of inadequate pedestrian facilities, services, and amenities such as retail facilities and usable open spaces and landscaped areas. The net result of the construction of many new office buildings and hotels has been the displacement of existing retail and service facilities. This has not only been detrimental to urban form and the overall vitality of the local environment, but has had adverse consequences with respect to small businesses in the area, many of which are traditional retail establishments.

The principal downtown retail district along Canal Street has experienced a substantial erosion of its traditional market over the last few decades. This is primarily a result of competition from suburban shopping centers, although recently development pressure from major new hotels and parking facilities has also contributed to the process. And yet it should be noted that downtown retailing is relatively healthy in New Orleans compared to other U.S. cities, as the CBD account for 15 percent of all retail sales in the metropolitan area.

Thus, in New Orleans, many small businesses in the downtown face the dual threat: continued erosion of traditional markets on the one hand, and spatial competition from large scale commercial development on the other. Prevention and enhancement of the best aspects of the traditional urban fabric have been recognized as a goal by local planning officials for some time, and can be regarded as a measure of the success of urban revitalization efforts.

2. Project Objectives

The widespread revitalization process underway in the New Orleans CBD encompasses both extensive economic growth and physical redevelopment. Capital projects completed or underway including the following:

- Canal Street Median Project
- French Market
- Lafayette Mall
- St. Charles Avenue Improvements
- New Orleans Exhibition Center
- Piazza D'Italia
- Jackson Square Mall
- Bourbon and Royal Street Malls
- CBD Shuttle Bus
- U.S. Mint Restoration

The New Orleans revitalization effort has also focused in large measure on the provision of new services and management of development activities. The Downtown Development District (DDD) of the City of New Orleans is a special taxing district with responsibility for strategic planning as well as the implementation of services and physical improvements. The DDD has played a role in creating and managing several of the capital projects identified above.

This memo focuses on two capital projects which most clearly illustrate the impact of revitalization on downtown small businesses: the Canal Street Median Project and the French Market complex. The interrelationships between these and other projects playing a role in downtown revitalization are also addressed as appropriate.

The Canal Street Median Project was intended to improve the general appearance of and provide visual continuity to the 3 mile long retail spine of downtown New Orleans. The underlying goal of the effort was to enhance the environment of the traditional downtown retail district, which had over the previous decade lost a large share of its former market to suburban shopping centers.

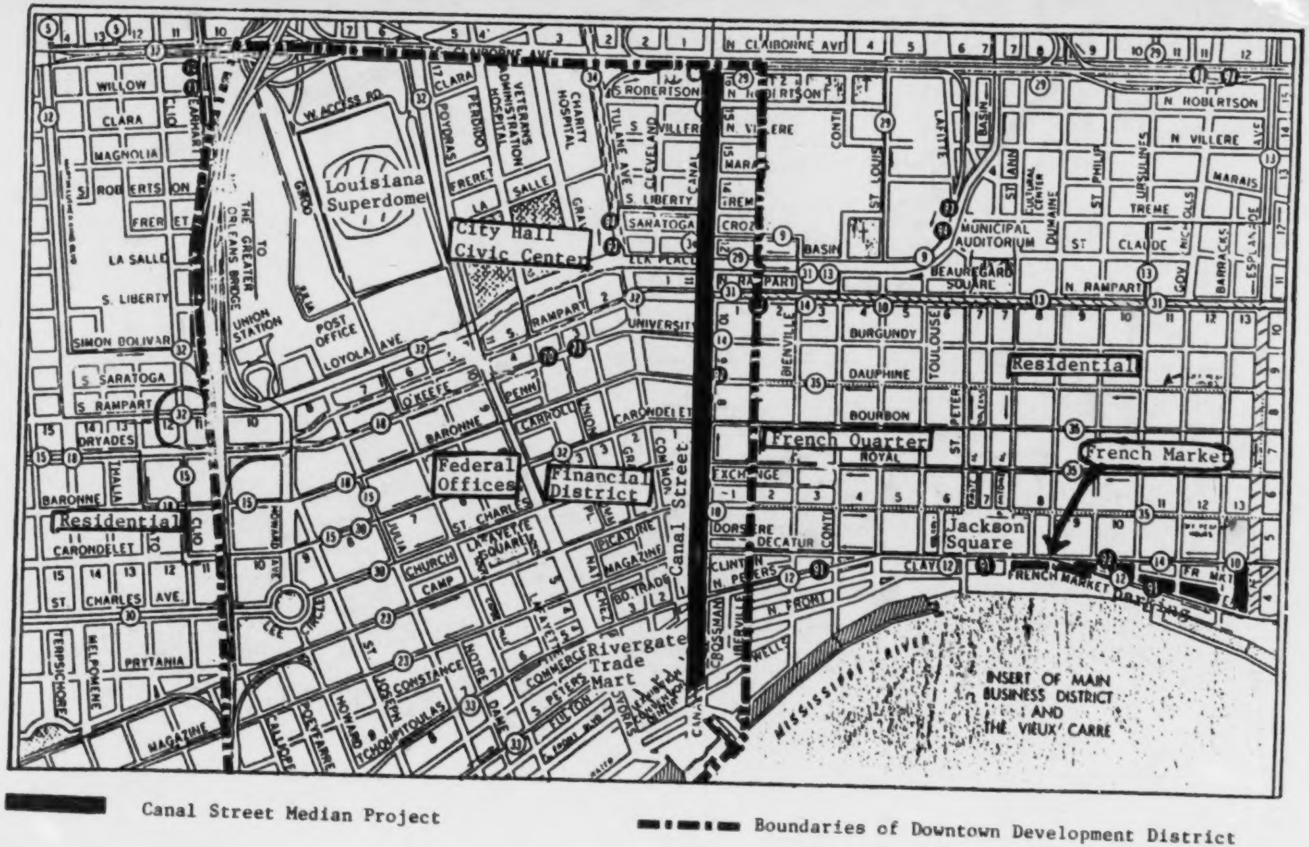
The purpose of the French Market rehabilitation was to upgrade the appearance and retail mix within the project area, which is located in close proximity to the attractions of the French Quarter. The rehabilitation effort was seen as an opportunity to further capitalize on the pedestrian traffic in the French Quarter, and to extend high quality retail development to the Riverfront area.

3. Project Description

A. Physical Improvements

Canal Street Median Project:

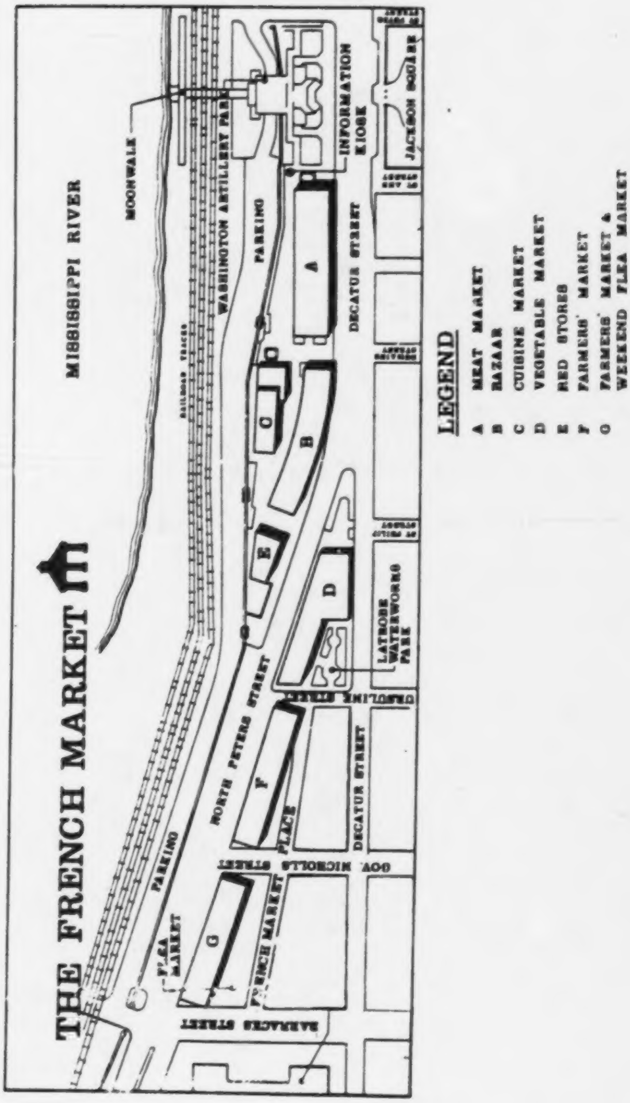
The project consists of physical improvements to the 60 foot wide median located along the center of Canal Street which is itself approximately 300 feet in width. Formerly the site of a street car line, the center of the median has for some time been used as an exclusive busway. Currently, the busway serves several local bus routes, including a


Louisiana Superdome
City Hall Civic Center
Federal Offices
Financial District
Canal Street
Rivergate Trade Mart
Residential
French Quarter
French Market
Jackson Square
Residential
CHARITY HOSPITAL
VETERANS ADMINISTRATION HOSPITAL
UNION STATION
POST OFFICE
TO THE GREATER ORLEANS BRIDGE
MUNICIPAL AUDITORIUM
BEAUREGARD SQUARE
MISSISSIPPI RIVER
INSERT OF MAIN BUSINESS DISTRICT AND THE VIEUX CARRE
N CLAIBORNE AVE
N RAMPART
BURGUNDY
DAUPHINE
BOURBON
ROYAL
DECATUR
N. PETERS
LOYOLA AVE.
POYDRAS
ST. CHARLES AVE.
MAGAZINE

■ Canal Street Median Project

▬ ▪ ▬ ▪ Boundaries of Downtown Development District

Canal Street and Downtown New Orleans


THE FRENCH MARKET
MISSISSIPPI RIVER
MOONWALK
RAILROAD TRACKS
WASHINGTON ARTILLERY PARK
PARKING
INFORMATION KIOSK
JACKSON SQUARE
ST PETER STREET
ST ANN STREET
DECATUR STREET
DUMAINE STREET
ST PHILIP STREET
LATROBE WATERWORKS PARK
URSULINE STREET
NORTH PETERS STREET
PARKING
DECATUR STREET
PLACE
GOV. NICHOLLS STREET
FLEA MARKET
FRENCH MARKET
BARRACKS STREET
A
B
C
D
E
F
G
LEGEND
A MEAT MARKET
B BAZAAR
C CUISINE MARKET
D VEGETABLE MARKET
E RED STORES
F FARMERS' MARKET
G FARMERS' MARKET & WEEKEND FLEA MARKET

segment of the downtown shuttle bus line. On both sides of the busway are sections of green space.

The improvements to the median provided under the project included transit shelters; a line of sycamore trees along the length of the median (and removal of the smaller number of palm trees which were already in place); decorative planters; concrete bollards; and decorative lights.

It should be noted that DDD has developed a proposal for additional physical improvements to the sidewalks on Canal Street, which would consist of repaving and provision of fountains and other pedestrian amenities. A number of land use and aesthetic controls have also been proposed to pressue and enhance the appearance and overall quality of the pedestrian environment. These include: (a) a requirement that all new structure follow the existing building facade line; (b) a prohibition against the construction of new parking facilities which front directly onto Canal Street; (c) a restrictive sign ordinance; (d) reduction of the permitted density of development and imposition of new building heights limits; and (e) a requirement that new development include retail and consumer service establishments on ground floors.

French Market

While the Canal Street Median Project represents an essentially cosmetic improvement implemented throughout a relatively large section of the downtown, the French Market is an intensive redevelopment effort concentrated within a small area. First conceived in 1969, the project was started in 1975 to preserve the buildings and increase activity in a prized but less than vigorous market.

In the French Quarter, the Market follows the Mississippi River from Jackson Square to the newly renovated U.S. Mint, all major attractions for locals and visitors alike. The Market occupies a 5 block area. The renovated complex, which stretches for 3 blocks, has a gross leaseable area of 48,000 square feet, over 30,000 square feet of pedestrian plazas, over

25,000 square feet of gardens, and 1/3 mile of covered walks. The two open air sheds comprising the Farmers Market cover an additional 2 blocks or 31,000 square feet.

The outstanding element of the renovation is the dedication of former streets and alleys to pedestrian use. Transformed by flagstone, fountains, landscaping, and outdoor furniture these areas now welcome informal gatherings, promotional attractions, and entertainment as well as outdoor cafe seating. Future plans for the pedestrian way include installation of awnings and carts for artists and craftsmen.

B. Operations and Management

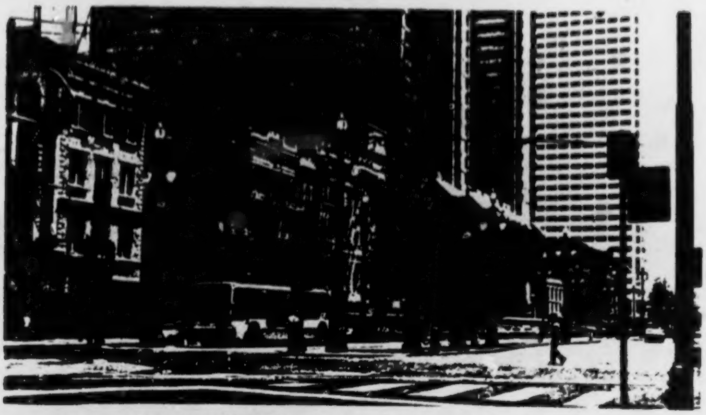
Continuing management of the Canal Street Median Project is provided by the Downtown Development District (DDD), the special public taxing district covering 200 square blocks of the Central Business District. Created in 1976, the DDD is headed by a board of directors appointed by the Mayor. Besides the regular street maintenance and security operations of the City, the DDD provides funds for special police services,, sanitation, a CBD shuttle bus, and ongoing activities such as concerts and Christmas decorations.

The French Market Corporation is a private, non-profit organization with responsibility for management of the French Market complex. The Corporation functions as a City agency, with a board of directors appointed by the Mayor. The administrative staff consists of 10 persons, whose functions include the following:

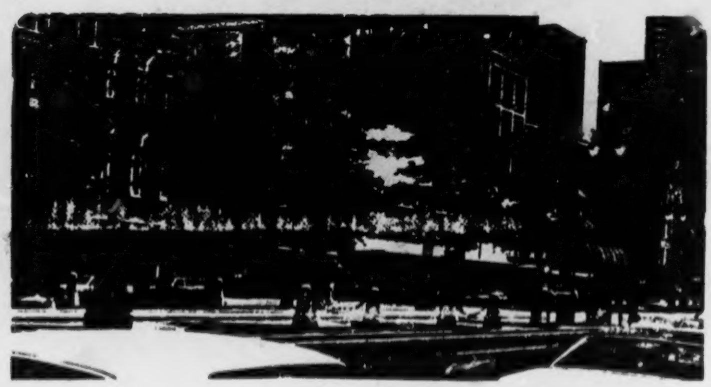
- repair and maintenance
- public relations
- promotions and marketing
- internal security
- leasing of space

While a fixed set of criteria is not applied in the selection of new tenants, in the last few years the Commission has been able to choose from among several applicants for each space that has become available, which has allowed for limited planning of retail mix. Previously, there had been a

Low/Moderate Income-Oriented Retail Blocks



Tourist/Middle Income-Oriented Retail Blocks

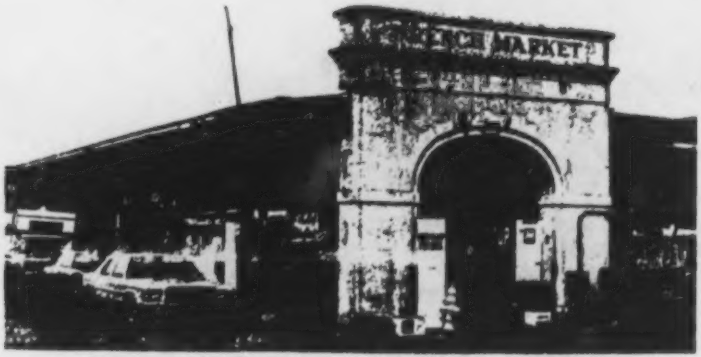


Major Design Elements: Trees, Bus Shelter, Bollards

Canal Street Median Project

French Market/French Quarter Interface

Renovated Former Meat Market Building



Farmers' Market Building in French Market Illustrates Condition of All Structures Before Renovation

French Market

surplus of space available in the complex, and the Commission had been forced to accept all applicants.

The Commission's role has also recently included planning for further physical improvements to the complex, which would consist of additional amenities designed to increase pedestrian activity in the areas between buildings.

Promotional activities sponsored by the Commission include weekly band performances, monthly puppet shows, and a number of special events. Over the past year, events in the complex have included a "beignet" eating contest, and a costume auction conducted at approximately the same time as the Mardi Gras. The complex is marketed through local television and radio promotions, public service announcements, newspaper and magazine advertisements and the distribution of promotional brochures.

4. Financing

Canal Street Median Project:

Construction was financed by the Economic Development Administration (EDA). Continuing maintenance is provided by the City. Since the implementation of the median project, the Downtown Development District has been authorized to issue revenue bonds for the financing of capital improvement projects. This is a likely source of funding for proposed future improvements on Canal Street. Maintenance and promotion operations by the Downtown Development District are supported by an ad valorem tax on real property in the central business district.

French Market:

The renovation of the French Market, costing $3.2 million, was financed through the sale of revenue bonds which are serviced by rental of French Market property. Continuing maintenance, promotional, and management activities are funded through rental fees which are currently $1.20 per square foot, with total rents at $8-10 per square foot.

EDA funds were used to construct a surface parking facility on French Market property, and until recently, the French Market received $150,000 annually in CETA employment funding.

5. Impacts on Business Conditions

Canal Street Median Project:

The Canal Street retail market appears to have stabilized over the past five years, although it is likely that any effect of the Median Project is likely to have been overshadowed by impacts associated with the substantial growth of the local economy. The Median Project extends over a distance of approximately 3 miles through the CBD, and the character of retail establishments along the length differs dramatically from section to section. Overall, the retail mix, in terms of market orientation or size of establishments, has not changed significantly since implementation of the project. Generally, sections of the street closer to the Mississippi River cater more to the tourist trade and higher income markets; those further away serve the local low and moderate income population. Throughout the street, there is a mix of chain stores and independently owned small retail establishments.

A major retail development is underway at the river end of Canal Street, which will feature an outlet of an upper income-oriented retail chain (Saks Fifth Avenue). This development is almost certainly the result of larger economic focus (i.e., growth in tourism and personal income) than the Median Project, which does not actually extend as far as the development site. It should be noted that the displacement of traditional Canal Street businesses by large new development has continued at the river end of the street in the period since the Median Project has been implemented, although the project cannot be considered to have contributed significantly to this result. If the area further from the river faces increased development pressure, stronger land use controls are likely to be required to preserve its diverse retail character.

French Market:

The French Market renovation was designed to transform the Market area into a specialty retail center. The renovation of the Market resulted in the displacement of a few small retail and non-retail businesses (e.g., Wholesalers, a fish market and a butcher shop) which were incompatible with the newly upgraded image of the area, or which could not afford the increased rents. These were replaced by a greater number of small, independently-owned retail establishments which were oriented toward a mostly middle and upper-middle class clientele, comprised to a large extent of tourists. There are several stores in the complex which serve the local population as well as the tourist market; these include a long-established restaurant which has relocated to the complex, a sandwhich shop, an ice-cream parlor, and a cafe. Other estblishments cater almost exclusively to tourists.

The French Market, after experiencing some difficulties, is now fully rented and is at least modestly successful. Rents are from $8 to $10 per square foot, as noted before. In comparison, rents in the French Quarter range as high as $50 per square foot, although not in the area immediately adjacent to the French Market, which is at the fringe of the Quarter. The French Market has in fact greater sales than the adjacent "fringe" area of the French Quarter, and has been credited with encouraging renovations and new small retail businesses (e.g., gift shops, a clothing shop and a restaurant) to move in on nearby streets.

Since opening, the French Market complex has experienced a number of business turnovers. The Executive Director of the complex cites poor merchandising and management as the principal cause of the failures which have occurred. While all the businesses in the complex are small and independently owned, those which have been most successful are those which appeal to daytime tourist and other pedestrian traffic. These include stores with relatively low cost items, as well as cafe-type restaurants and bars. It has been noted that several of these establishments are owned by individuals with previous experience in retail management, i.e., persons who own a similar enterprise at another location.

In contrast to Canal Street, the French Market is located outside the principal development area of the downtown, and is not experiencing similar real estate pressures. Overall, the project appears to have had a relatively small, although beneficial, effect on small business opportunities in the downtown.

THE PORTLAND MALL

1. Project Setting and Downtown Land Use

Portland is the largest urban area in Oregon, in a region dominated by forestry and forest products manufacturing. It is located on the Willamette River near its confluence with the Columbia River, and borders the state boundary with Washington. The city has a 1980 population of 366,383 (down 4 percent from 1970) and is part of an SMSA of 1,041,947 (up 19 percent from 1970). The CBD is compact and dense, and local planning efforts have been oriented toward encouraging high density land uses there. The strength of the downtown has been in its office construction, as employment downtown has grown steadily in the last 20 years. High-rise office buildings are located immediately north and south of the retail district, although most of the recent construction has been on the south. Retail sales in the 1945-1977 period were continually declining, however, as retail activity moved to suburban locations and some retailers were vacating the downtown area. The opening of a major regional shopping mall, Lloyd Center, just 1 1/2 miles from downtown in 1958, is credited as a major step toward killing retailing downtown. Two other large regional malls in outlying locations subseqently added to the competition.

Since the adoption of Portland's "Downtown Plan" in 1972, the city has embarked on a major effort to revitalize the downtown area. Elements of that plan included the development of transit malls (both the mall described here and another project planned for Adler and Morrison Streets); controls on building heights and area coverage; and extensive new residential developments downtown. Much new development has occurred along the riverfront south of the retail core. The mall projects and concentration of transit service within and nearly to the retail core represent an attempt to provide a "functional focus" to that area. Other major development projects include:

- two shopper parking garages
- Waterfront park (1977)
- South Auditorium Renewal Project

- o Johns Landing--riverfront redevelopment, featuring apartments, office buildings, restaurants and specialty shopping complex.
- o Galleria--conversion of a vacant department store building into a new retail center
- o Pioneer Square--public plaza
- o new light rail transit line on Morrison and Yamhill Streets

2. Project Objectives

The transit mall was initially conceived as one part of the master downtown plan,[1] financed jointly by the city and the downtown business community, to reverse the deterioration of downtown business activity. In the application for UMTA funding, the mall was justified primarily as a means of improving transit service and reducing air pollution, with secondary objectives of concentrating development in the downtown core near the mall, and improving downtown business relative to that in suburban locations.[2] In fact, local officials recognized that the Portland Mall represented the largest single public investment to Portland's downtown in 40 years, whose "major impact could be as a catalyst for turning around years and years of neglect and decline."[3]

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[1] "Planning Guidelines/Portland Downtown Plan," adopted by the City Council, 1972.

[2] "Final Environmental Impact Statement, Fifth and Sixth Avenues Transit Mall," Urban Mass Transportation Administration, 1975.

[3] Hunt, J. David, "Success Story: The Portland Mall, Portland, Oregon," in Proceedings of the Joint Development Marketplace, June 25-27, 1978, Public Technology, Inc., 1978.

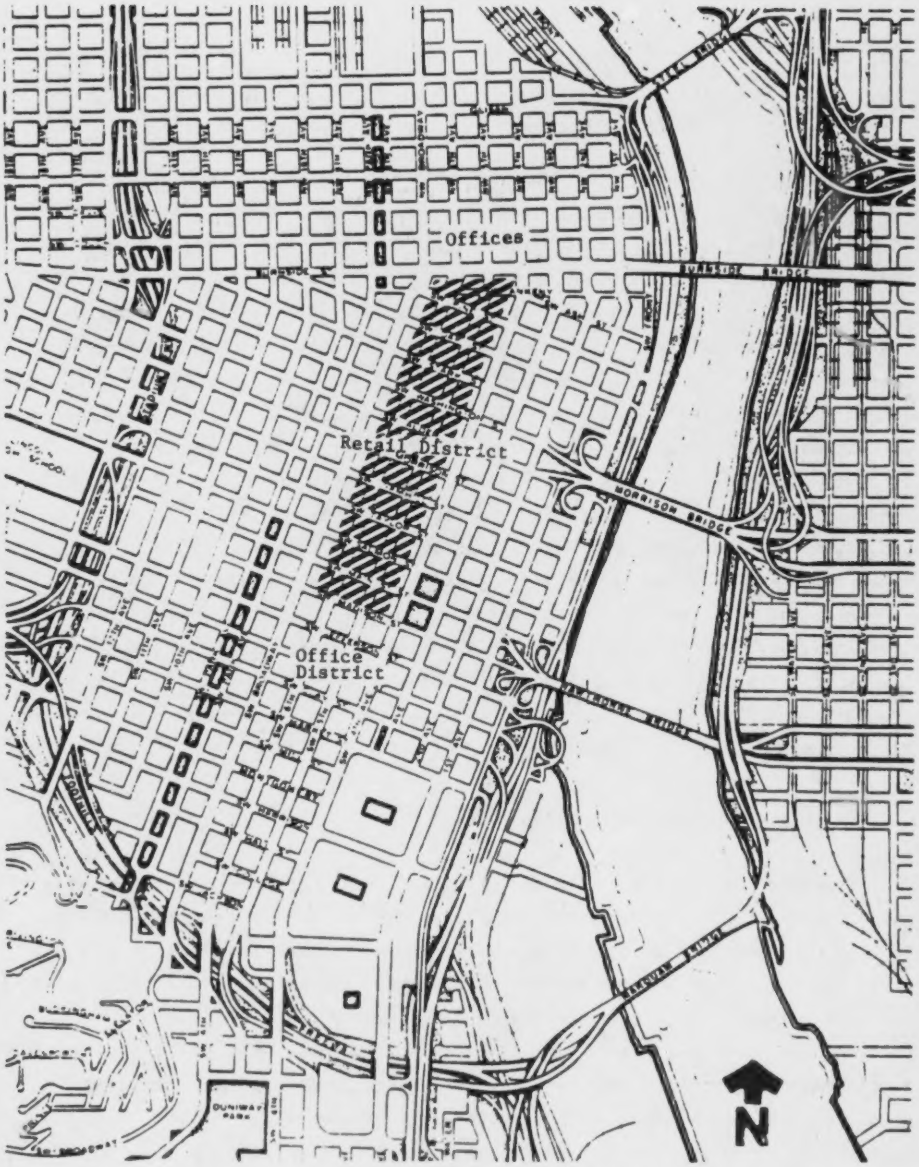
3. Project Description

A. Physical Improvements

The Portland Mall is a pair of transit malls twelve blocks long on each of two parallel streets--Fifth and Sixth Avenues. Each of the two streets is one-way with two bus-only lanes and one lane for general traffic (to provide access for three parking garages, the Hilton Hotel and the County Courthouse). To prevent through traffic, every fourth block of the general traffic lane is replaced by widened sidwalks. The mall runs the length from the high-rise office district south of the retail core to the office district north of the retail core, passing through the primary retailing district at Washington, Adler, and Morrison Streets. Originally conceived in 1971, the project was started in 1976. Construction on Fifth Avenue was completed in 1977 and on Sixth Avenue by the beginning of 1978. The mall project features widened brick sidewalks, bus shelters with electronic information systems, new Victorian-style lighting, trees, moveable flower planters, and other pedestrian amenities such as benches, drinking fountains, information kiosks, vending machines, concession booths and trash containers. Adding to the unique physical image of the area are five fountains and elevent modern sculptures, plus a 23-foot high kinetic water sculpture in a 20-foot diameter pool at the north end of the mall.

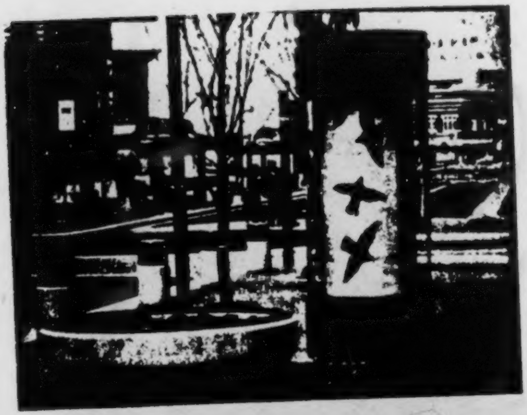
B. Operations and Management

Since the Portland Mall was financed as a transit improvement project, the series of initial promotional activities on the mall were organized by Tri-Met (the Portland area transit authority) with assistance and backing from the merchants. The annual 3-day "Artquake" festival, in which one of the mall streets is closed, is sponsored and organized by Artquake--a non-profit organization supporting the arts in Portland. Artquake attracts an estimated one million people to the mall over the 3 days. Long term retail promotional efforts focused on the mall have been limited by the fact that the mall runs through the retail core for just a couple blocks and does

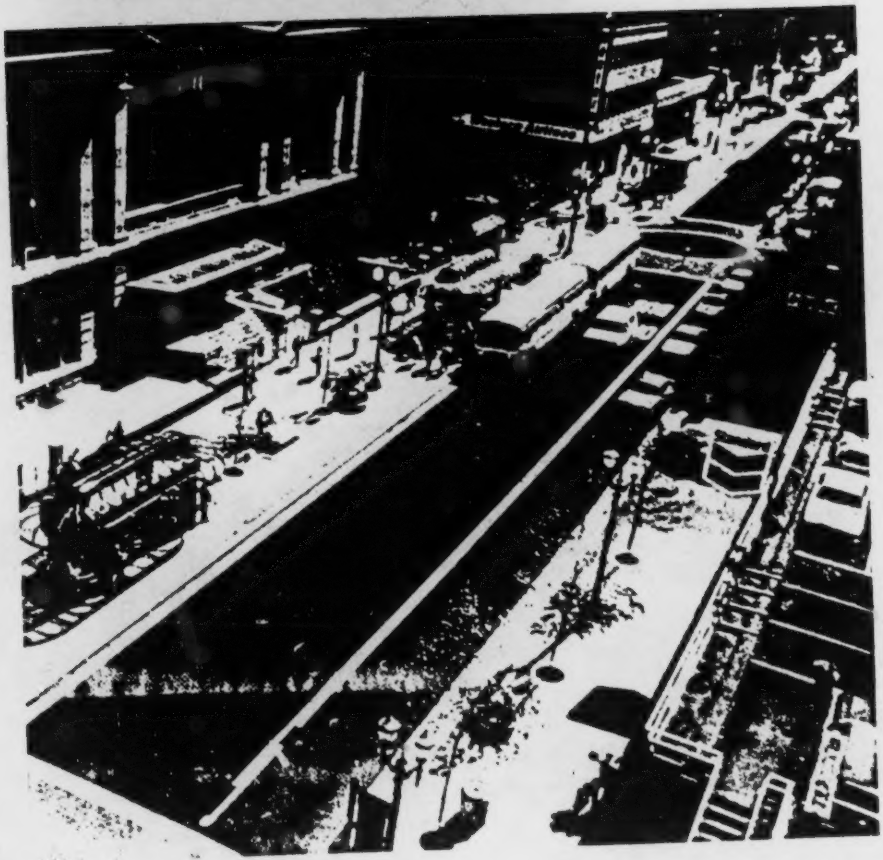

Offices
Burnside Bridge
Retail District
Morrison Bridge
Office District
Hawthorne Bridge
Marquam Bridge
Duniway Park
N

Scale 1" = approx. 1,000'

Portland Mall Location



Portland Mall



not include some of the primary retailing blocks, but also by the fact that there was no organization for central promotion of downtown activities. More recently, the 2-year old Association for Portland Progress, a region-oriented organization, has started central promotion activities for the downtown retail district and has taken responsibility for organizing special events there.

Maintenance of the mall area is performed mostly by the City. The City is responsible for normal street and sidewalk maintenance, and has adopted a special mall maintenance program including street cleaning and upkeep of trees and flower plantings. Tri-Met helps maintain the bus shelters and information kiosks. Property owners are responsible for snow removal in front of their buildings.

An important means of increasing human activity in the mall area is the fact that most of the local transit service is focused on the mall. Bus service from other nearby (non-retailing) streets was rerouted to the mall, and the number of buses on the mall during the peak hour was increased from 127 to 333. The mall now acts as a funnel through which most buses in the core area go. To further encourage bus usage and visits around downtown, a free fare zone was established.

The City of Portland Development Commission is the primary agency supporting economic development in the city, and has played on ongoing role in stimulating new business activity along the mall. The Portland Development Commission and the Portland Bureau of Planning (which is responsible for economic planning) work together through the Portland Office of Planning and Development.

4. Financing

Construction of the Portland Mall cost $15 million, of which 80 percent was funded by a grant from the Urban Mass Transportation Administration and 20 percent by the Tri-County Metropolitan Transportation District

(Tri-Met). A large proportion of Tri-Met's revenue comes from an 0.5 percent regionwide employer payroll tax. Earlier, $1.5 million was spent for preliminary design and engineering, funded 67 percent by UMTA and 33 percent by Tri-Met. An additional $1 million was required for extensive relocation and reconstruction of underground utilities; this cost was borne by the City departments and utility companies.

The closely-related two shopper parking garages on either side of the mall were constructed by the Portland Development Commission using HUD Community Development Block Grants, a parking revenue bond and tax increment financing.

5. Impact on Business Conditions

The Portland Mall and nearby parking garages have helped attract new investment, and the decline in downtown retail sales is reported to have levelled off since 1977. Significant changes have been observed in the image of stores on the streets, due both to upgrading of existing stores and the movement in of new stores. These changes, however, have been most apparent for the larger department stores. The Nordstrom department store recently moved into new quarters one block from the mall, and another new department store (Frederick & Nelson) moved into an existing building on 5th Avenue. The owner of the latter operation cited both new parking ramps and the transit mall as reasons for moving to downtown Portland. Another department store cited the mall as a reason for its decision/not to move from downtown. Two major department stores, Meier & Frank and J.C. Penny, front onto one block of Sixth Avenue. The former store has recently been extensively remodelled, while the latter moved from another building down the street (on 5th Avenue).

Since construction of the mall and the shopper parking garages, local officials have noted an increase in national chain stores, such as ice cream shops and jeans store, although tnese new entrants have by and large been concentrated near the parking garages (a few blocks off of the mall). Regional (rather than national) chains are more common on 6th Avenue. The familiar names of the chain stores are considered helpful in upgrading the impact of the downtown streets and attracting more shoppers. In general, however, it has been noted in a private marketing study that the City of Portland has a higher propoeition of locally owned stores (including local chains) than most comparable cities nationwide--this also holds for the shopping centers. (At one outlying mall, 65 percent of the stores were found to be locally owned). The major opportunity for expansion of small stores has been in The Galleria, a collection of shops and restaurants recently opened in a formerly-vacant department store building. This shopping center, located adjacent to one of the parking garages a few blocks off of the mall, is filled with both independent shops and regional chain stores.

IN-DEPTH CASE STUDY

BOSTON: DOWNTOWN CROSSING

1. Project Setting and Downtown Land Use

Boston is the principal urban center of New England and one of the oldest and most densely developed urban areas in the United States. The city's 1980 population is 562,582 (down 12 percent from 1970), while the SMSA population is 2,759,800 (down 5 percent from 1970). Population density within the city is over 11,000 persons per square mile and employment density is nearly 5,800 jobs per square mile. Boston is a strong regional and national center for banking, insurance, manufacturing, government, and education. Over half of the city's workforce of 535,000 works within a 4 square-mile area of downtown Boston.[1]

The downtown retail core is the oldest developed area in the city. The high-rise financial district is adjacent to the retail core on the east. To the north is Government Center, with the City Hall and state and federal office buildings. Boston Common is the western boundary, and to the northeast is the Faneuil Hall Marketplace and the revitalized waterfront.

While the downtown Boston retail district remained active, it had been showing signs of increasing decline for decades. In fact, downtown retail sales had been declining in constant dollars since the end of World War II. The decline in sales was most severe in "shopper goods" (i.e., general merchandise, apparel and assessories), primarily due to new suburban shopping centers. Annual retail sales in the area were reported at $464 million (in current dollars) in 1977, which compared to 1972 represents a 15 percent decline in sales after controlling for inflation in retail prices. While the downtown retail area declined, retail sales over the entire metropolitan area increased 8 percent between 1972 and 1977, after controlling for price inflation. The CBD now accounts for only about 25 percent of retail sales in the city and 5 percent of sales in the SMSA, although among "shopper goods,"

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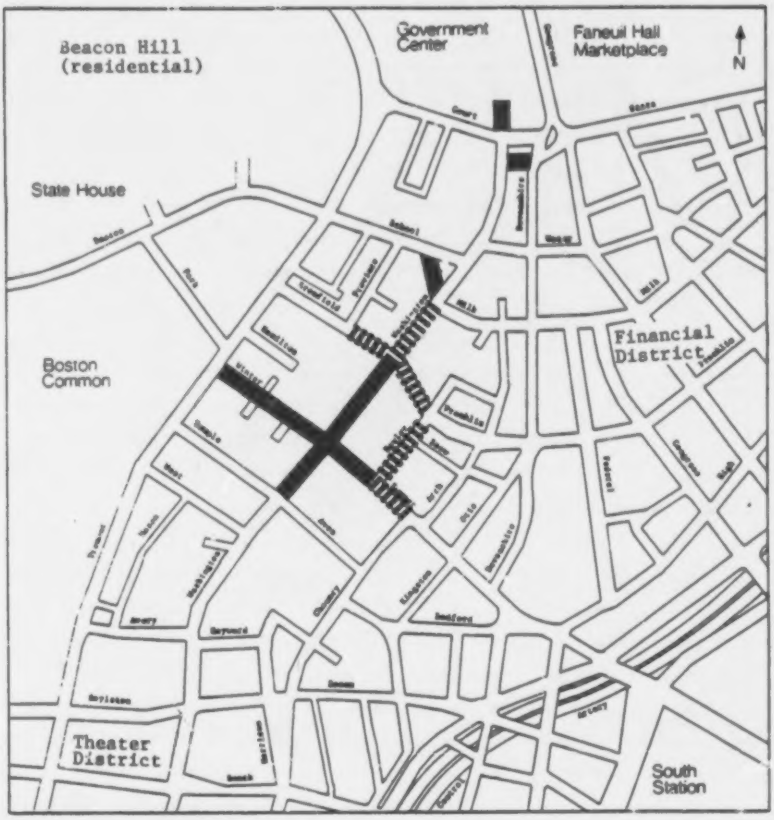
[1] Boston Redevelopment Authority, 1976.


Beacon Hill
(residential)
Government Center
Faneuil Hall Marketplace
N
State House
Beacon
Park
School
Court
State
Milk
Winter
Washington
Franklin
Boston Common
Financial District
Summer
Arch
Devonshire
Federal
Congress
Tremont
Boylston
Theater District
South Station

▬ Closed to traffic

▥ Closed to general traffic but open to taxis

Location of Boston's Downtown Crossing
Pedestrian Mall

it accounts for 58 percent of sales in the city and 13 percent of sales in the SMSA (Census of Retail Trade, 1977).

As total CBD sales declined in real terms between 1972 and 1977, the number of establishments in the CBD decreased by almost 8 percent. The largest percentage losses in number of stores occurred in the general merchandise and apparel sectors. General merchandise stores were the hardest hit, with almost half of the stores closing between 1972 and 1977. The number of apparel stores decreased by 18 percent.

Two major department stores (Jordan Marsh and Filene's) remain to form the core of downtown retail. A modern four-floor Woolworth's department store built in 1970 represents a third anchor on Washington Street. Four other major downtown anchor stores closed during 1972-1980 (Raymond, Gilchrists, Stearns, and Kennedy's); three closings were due to chain-wide bankruptcies and the fourth closing was attributable to a large-scale chain consolidation and shift in merchandising strategy. Still, nearly half of all sales in the CBD are at the department stores.

In recent years, two other retail districts have emerged in downtown Boston to compete with the traditional retail core. The Back Bay area (one mile away) represents the prestige retail center, focusing on clothing and restaurants. The Prudential Center mall in Back Bay was completed in the early 1970's and includes two department stores, Lord & Taylor and Saks Fifth Avenue. Newbury Street in Back Bay features high quality apparel stores such as Bonwit Teller and Brooks Brothers. Altogether, the Back Bay area features 250 stores and 1979 retail sales of $139 million. The most recent competing retail district in the downtown area is the Faneuil Hall Marketplace. Opened in stages over 1976-1978, the Marketplace features 150 small food and speciality shops and 1979 sales of $57 million. Although sales in both areas are smaller than the sales volume of the traditional downtown retail core, they represent increasing competition to it.

The need for revitalization of the downtown retail core was recognized in 1962, when downtown businesses and other downtown interests organized the now defunct Committee for the Central Business District, Inc. (CCBD). The CCBD and the Boston Redevelopment Authority contracted with a consultant for an area redevelopment plan. The resulting proposal called for an extensive network of pedestrian malls, subsurface and second story level shopping concourses, together with considerable demolition and new construction. The project plan was killed by merchant opposition and the decision of HUD not to fund the plan. The Downtown Crossing project, which is the subject of this case study, grew out of the lobbying efforts of an independent card shop proprietor, who in 1975 organized the small businesses on Winter Street and lobbied the mayor to restrict traffic and inject some new capital to improve the area. The independent downtown merchants, concerned about a further loss of sales following the opening of the Quincy Market building (in the nearby Faneuil Hall Marketplace), subsequently supported the City's plan for an auto restricted zone, although the large department stores were initially opposed to it.

Many highly visible improvements have occurred in downtown Boston in the previous fifteen years. Numerous major new office buildings were constructed in the Financial District during the 1970's. Government Center was an urban renewal project constructed at the head of Washington Street in the late 1960's, and the Faneuil Hall Marketplace and waterfront renewal was recently completed (opening in 1976-78). Besides the recent "Downtown Crossing" retail district revitalization project, there are many other projects in downtown Boston that are currently under construction which will increase the base of activity downtown and provide further revitalization to the area. Within the downtown retail district are three projects:

- Lafayette Place--mixed use development featuring a 500-room hotel; 200,000 square feet of retail; and a parking garage.
- Devonshire Towers--a high-rise building featuring 480 luxury apartment units and 40,000 square feet of retail
- Stearns Building Conversion--conversion of a vacant department store building into elderly housing.

Other downtown area projects include: conversion of an office building to elderly housing; expansion of a major medical center; a new state office building; several private office buildings; and two new hotels (near Faneuil Hall Marketplace). In the nearby Back Bay area is Copley Place, a $300 million (UDAG funded) mixed use development under construction, including two major hotels; 500,000 square feet of retail (including a Neiman-Marcus department store); 2,000 parking spaces, and two office towers.

Given the substantial downtown renewal in past years and the continuing development underway, it is clear that the Downtown Crossing project is but one element of the overall revitalization of downtown Boston.

2. Project Objectives

The Downtown Crossing Project was developed with the general objective of encouraging the continued physical and economic revitalization of downtown Boston. The plan sought to set up a more balanced transportation circulation framework, make the streets more attractive through specific urban design improvements, and create of new programs for the management and utilization of downtown resources. The specific objectives related to these goals were:

1. Economic Vitality--to encourage the expansion and diversificaton of activity within the downtown commercial center.
2. Pedestrians--to provide better access for pedestrians within the area and from activity areas on the periphery of the retail district. This involved creation of pedestrian-oriented public places, such as shopping streets, small resting areas, special historic sites, and primary open spaces.
3. Public Transit--to improve accessibility to and within the downtown retail core by improving public transit service.
4. Image and Environment--to improve the general image and attraction of the older downtown streets by creating a physically comfortable street environment free of noise and pollution, and equipped with pedestrian amenities. The project aimed to demonstrate a public commitment to the design, furnishing, and maintenance of the physical setting, and the management of activities there.

3. Project Description

A. Physical Improvements

Downtown Crossing is an auto-restricted zone; the first such application in the United States in which downtown retail blocks were converted into pedestrian space on a zonal basis rather than as a strip-type mall. A total of 11 blocks on six different streets were closed to auto traffic. The project converted two blocks of Washington Street, the primary retail street, and two blocks on Winter Street, a major retailing cross-street, into pedestrian ways. Five other blocks (on Washington, Summer, Hawley, Bromfield and Franklin Streets) were also closed to auto traffic, but remain open to taxis. Two other blocks (the School Street connector and on State Street) were converted into park space.

The first stage in widening sidewalks and improving the image of the area was the Washington Street Mall project, completed in 1977. The full set of improvements, known as the Downtown Crossing project, is based on a plan developed in 1977. All auto restrictions were implemented in 1978 and all physical improvements were completed in 1979.

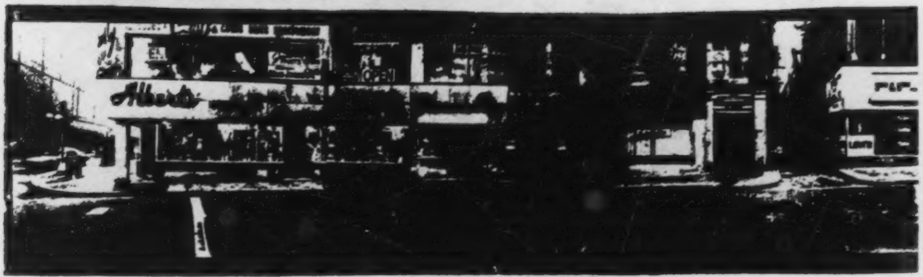
The pedestrian zones on Washington, Winter and Summer Streets received new brick paving, decorative lighting, shrub boxes, and information kiosks. Benches were placed on Winter and Summer Streets. A sidewalk canopy which unifies the storefronts along two blocks of Washington Street was constructed two years earlier as part of the Washington Street Mall project. The other auto restricted blocks on Washington and Franklin Streets had only sidewalk widenings or sidewalk improvements. Delivery vehicles are allowed on all of the auto restricted streets (except one block of Summer Street) before 11 AM, and special time-sensitive haulers (such as armored trucks) are allowed by permit after 2 PM.

A series of four mini-parks provide a more relaxed atmosphere for visitors to the area. Features of some or all of these parks are: brick

BARNES & NOBLE BOOKSTORE

Washington Street in Downtown Crossing, Featuring Storefront Canopy, Decorative Lighting, and Information Kiosks

Washington Street: Storefront Canopy Unifies Store Facades



Winter Street, around the Corner from Washington Street, features Many Independent Businesses

Pedestrianization of Winter Street Increased Pedestrian Activity and Attracted New Chain Stores paving, decorative lighting, benches, trees and removable tables and chairs. Two of these parks were constructed as part of the street closing project; the other two were created earlier, also out of former street space.

B. Operations and Management

The Boston Redevelopment Authority (BRA) is the primary organization responsible for operation of Downtown Crossing. Technically an autonomous authority created by the State legislature, it operates within City Hall as the primary planning and development agency for downtown Boston.

The Downtown Crossing project included a major effort to promote shopping in the downtown retail core. The city hired an advertising firm to develop a new name for the project area (in cooperation with the merchants), and what was formerly referred to as "the Washington Street area," was renamed "Downtown Crossing." A major media compaign advertised the new name and image of the area to the public. Since there had been no downtown merchant organization to take responsibility for promotion, the BRA (using UMTA money) funded a public relations office to promote Downtown Crossing and organize activities during the 1978-1979 period. With contributions from the area merchants, major Christmas promotions were initiated, including construction of a series of 13 "stellar snowflakes" (representing the Downtown Crossing logo) to hang above the streets. Each snowflake was over 400 square feet in area and included over 1,000 light bulbs. Project promotion funds also paid for subsidy of a visitor shuttle bus to include Downtown Crossing on its tour and advertise the area on the sides of its buses for the first year of the project.

With assistance from the BRA, a private, non-profit merchant organization known as the Downtown Crossing Association was organized in 1980. The Association was organized to take over responsibility for promotion and to act as liaison between the merchants and the various city departments on management and operations issues such as: maintenance, security, street improvements, traffic and sign control, zoning, licensing and sanitation. It is a voluntary membership organization which now includes most of the retailers on the main shopping streets. Members are assessed annual dues ranging from $50 to $3,000, depending on their sales volume. The Downtown Crossing Association has recently been taking increasing responsibility for operations in the mall area. It has paid for additional staff to improve cleanups of trash in the sidewalks and streets. In addition, the merchants agreed that all outdoor special events, musical performances, exhibits and even outdoor sales on private property would be subject to approval by the Downtown Crossing Association.

During the first two years of the auto restricted zone, an additional element of support was the extension of six local bus routes and four express bus routes into the auto restricted zone. At first buses ran down Washington Street, but bus-pedestrian conflict on that street caused the buses to be shited to a parallel street. All bus service through the auto restricted zone was subsequently dropped due to budgetary reasons, and transit riders visiting Downtown Crossing now come by means of the four subway lines serving the area.

4. Financing

The Downtown Crossing project was funded by four sources. Construction of the Winter Street/Summer Street pedestrian zone and various signals and signing changes were funded by a $1.0 million Federal Aid Urban Systems grant from the Federal Highway Administration. Construction of special bus lanes, bus shelters and benches was funded with $800,000 of a larger Section 6 "Transit Efficiency Capital Grant" from tne Urban Mass Transportation Administration to the Massachusetts Bay Transportation Authority. Both of these two grants included a 25 percent local matching share. Bricking of the sidewalk and street space on Washington Street and improvement to some other side streets were funded at a cost of $1.2 million by the City of Boston. An additional $250,000 for information kiosks and pedestrian information signing was funded by UMTA Section 3 demonstration funds. Total capital costs were thus $3.25 million.

Supporting the operation and management of the Downtown Crossing area for three years from 1978 to 1981 were two UMTA Section 6 demonstration grants totaling $1.8 million. Included in this budget were: operation subsidy for extension of bus routes into Downtown Crossing ($710,000); supplementary police enforcement to keep cars out of the auto-restricted zone ($285,000); promotion ($105,000); supplementary maintenance ($30,000); and marketing & development studies ($195,000). An additional $500,000 went for special short-term needs including project coordination during construction, liaison with merchants, coordination with other developments in the area, and extensive evaluation data collection. Responsibility for promotion has now shifted to the Downtown Crossing Association.

5. Impacts on Business Conditions[1]

A questionnaire was distributed to all area businesses both before and after implementation of the Downtown Crossing project in order to assess impacts of the project on attitudes, business operations and sales. A total of 274 questionnaires were returned in 1978 and 337 were returned in 1980, out of over 1,000 mailed out each year. The type of business responding was similar for the two surveys, and indicated that most businesses were long-time independent operations. Roughly two-thirds of the respondents in both years indicated that their establishment was not part of a store chain,[2] and about 80 percent indicated that their business had been at the same location for 4 or more years. In fact, the average length of stay was 15 years.

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[1] This analysis is based on surveys of business establishments developed by Cambridge Systematics and conducted by the Boston Redevelopment Authority, under funding by the Service and Methods Demonstration program of the Urban Mass Transportation Administration and the Transportation Systems Center of the US Department of Transportation. A full evaluation of the Downtown Crossing project is presented in Weisbrod, et al. (1981).

[2] Wording of the question changed over time. In the 1978 survey, 65 percent of the businesses reported they were not part of a multi-establishment chain. In the 1980 survey, 73 percent of the businesses reported they were independently owned and operated (and not part of a regional or national chain or a franchise).

Business Mix

Changes in the types of businesses operated in the area are a prime form of project impact. Table 3-1 shows the number of stores entering and leaving the area by type. Overall, the results show an increase in the number of restaurants and chain stores. The increase in eating and drinking places largely results from a conglomeration of fast food shops within "The Corner" (a new shopping complex developed in a vacant department store building), but is nonetheless consistent with increases in the proportion of such establishments associated with the Chestnut Street Mall in Philadelphia (Edminster and Koffman, 1978, p. 193) and the Mid-America Mall in Memphis (see preceeding Memphis description). In general, the measured increases in lunch period foot traffic from nearby office buildings particularly benefited the "quick stop" types of businesses; for example, a new bakery on Washington Street adopted a shopping center-style open front to increase accessibility to the sidewalk traffic. Businesses present in 1980 were surveyed concerning plans to expand their operations within the next year. The results were consistent with the changes in net entry rates. Plans to expand were reported by 23 percent of the restaurants/bars--more than twice as frequently as for any other type of establishment. Overall, 16 percent of the chain stores reported plans to expand, compared to only 5 percent of the independently-owned stores. Another question in the 1980 business attitude survey (administered to a sample of 100 firms) asked if the merchant "perceived a growth in the number of franchise and chain stores around you?" Two-thirds of the respondents answered yes.

A special survey of 43 businesses entering the area since 1978 found that the Downtown Crossing project influenced the moving decision of 35 percent of the entering businesses. The merchants were then questioned about the factors they considered most important in influencing their decision to open a store in Downtown Crossing. The factors cited by over half of the respondents were (in order of decending frequency): (1) changes in the market, (2) appearance of the area, (3) availability of financing for improvements, and (4) changes in level of auto traffic. Factors cited less often were: (5) costs of doing

TABLE 3-1. ENTRANCES AND EXITS IN THE DOWNTOWN CROSSING AREA, 1978-1980

	Total Number of Firms	
	Exited Area 1978-1980	Entered Area 1978-1980
Type of Establishment		
Clothing	11	11
General Merchandise	0	2
Restaurants	15	18
Banks	0	1
Shoes	3	0
Jewelry/Furs	2	3
Books/Records/Cards	2	2
Hair and Beauty	3	2
Services	3	6
Sporting Goods/Cameras	1	1
Wholesale/Manufacturing	0	0
Miscellaneous	8	11
Ownership of Establishment		
Independent	36	39
Chain/Subsidiary	8	17
Not Known	4	1
TOTAL	48	57

Source: Weisbrod, et al (1981); from Boston Redevelopment Authority Records business, (6) presence of a new merchant organization, (7) rents and (8) competitors in the area.

Sales and Costs

Table 3-2 shows the overall percent change in area sales and store costs by type of store. The total volume of sales for all stores responding to the survey questions increased by 27 percent over the two-year period. While price inflation for shopper goods[1] over the period was approximately 10 percent, these indications of increased retail sales still represent a radical turnaround from the area's historical trend of constant dollar retail sales declining. The types of stores showing a greater than average increase in total sales were books/records/cards; services; and jewelry stores. Clothing and sporting goods/cameras reported the smallest increase in sales. In general, sales volumes increased the most for medium-sized stores and least for large stores (while costs increased similarly for all size stores). Stores located on the improved streets reported a substantially larger increase in sales (and costs) than stores on nearby streets. It is particularly notable that while there was little difference in the sales increase for independent and chain stores, the independent stores reported much higher increases in costs of doing business than did the chain stores.

The proportion of businesses reporting decreasing sales was highest among store categories of hair and beauty; wholesale and manufacturing, general merchandise and sporting goods/cameras. Altogether, 80 percent of the responding businesses reported an increase in sales between 1977 and 1979, 6 percent reported no change, and 14 percent reported a decrease.

Overall Perceived Impact

To some extent, changes in sales volume for merchandise such as jewelry reflects changes in market prices rather than true shifts in the amount of

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[1] Excluding portions of the consumer price index for housing, food and durables.

TABLE 3-2. CHANGES IN SALES OF DOWNTOWN CROSSING AREA BUSINESSES BETWEEN 1977 and 1979

	% Change in Total Sales Volume[A]	No. of Businesses Reporting:			Average % Change in Costs per Store[B]
		Sales Down	Sales Even	Sales Up	
Type of Establishment					
Clothing	7	1	0	12	23
General Merchandise	13	1	0	2	NA
Restaurant or Bar	14	1	1	11	24
Shoes	20	0	0	7	12
Jewelry	39	0	0	18	28
Books, Records or Cards	48	1	0	11	17
Hair and Beauty	19	3	1	3	39
Services	46	0	1	6	28
Sporting Goods or Cameras	7	3	3	13	18
Wholesale and Manufacturing	19	1	2	10	38
Miscellaneous	13	5	0	18	30
Size of Establishment					
Small (1 to 5 employees)	25	12	7	53	29
Medium (6 to 25 employees)	29	6	1	48	28
Large (over 25 employees)	13	1	1	9	20
Ownership of Establishment					
Independent	28	10	8	84	31
Chain/Subsidiary	26	9	1	31	22

TABLE 3-2. CHANGES IN SALES OF DOWNTOWN CROSSING AREA BUSINESSES BETWEEN 1977 and 1979 (Continued)

	% Change in Total Sales Volume[A]	No. of Businesses Reporting:			Average % Change in Costs per Store[B]
		Sales Down	Sales Even	Sales Up	
Location of Establishment					
On an auto-free street	33	4	3	37	31
Near an auto-free street	24	16	6	78	26
TOTAL	27	20	9	115	27

[A] Not adjusted for price inflation, which averaged 8 percent for apparel, 13 percent for personal care products and 20 percent for restaurants.

[B] Not adjusted for inflation; includes cost of rent, inventory, labor and advertising.

Source: Weisbrod et.al. (1981); results from 1978 and 1980 Business Establishment Surveys business. Since reported costs and sales figures are subject to fluctuations independent of the downtown improvements, managers of area businesses were asked to evaluate the impact of the Downtown Crossing project on their establishment. The results are shown in Table 3-3. While most merchants (46 percent) concluded that the project had no effect on their establishment, 39 percent thought the project had improved business, and just 15 percent felt that it had hurt their business.

The effect of Downtown Crossing on businesses varied consistently by business size, ownership, and type. According to the perceptions of the merchants, small businesses were hurt more and helped less by the project than were larger ones. Independently-owned stores were also hurt more and helped less than chain stores. While the finding that independent merchants benefited less from the project can be consistent with the higher cost increases reported by independents, the findings concerning store size and merchandise type are not reflected by the reported sales and cost trends shown previously. The finding that smaller stores perceived less benefit from the project than did larger firms is, however, the same trend as found from a survey of impacts of Philadelphia's Chestnut Street Mall project (Edminster and Koffman, 1978, p. 192).

Merchant Involvement

Another element of project impact is the degree of its success in spurring the involvement of the merchants in downtown promotion activities. When the Downtown Crossing Association was organized in May 1980, all 1,300 businesses in the area were invited to join the Association. Over half of these businesses were doctors, lawyers, beauty salons, services and offices on upper floors of which little participation was expected. The retail merchants are the group for which the Downtown Crossing Association is most relevant. The Association's goal is to get at least 500 members. The current membership of 160 has a strong representation among the categories of restaurants and bars, general merchandise, jewelry, books and cards. Still, many of the jewelry, fur, shoe, and camera shops--selling higher priced goods--have not

TABLE 3-3. PERCEIVED EFFECT OF DOWNTOWN CROSSING PROJECT ON INDIVIDUAL BUSINESSES

	Percent Helped	Percent Unaffected	Percent Hurt
Type of Establishment			
Clothing	49	32	19
General Merchandise	60	10	30
Restaurant or Bar	58	24	18
Bank	50	45	5
Shoes	72	12	17
Jewelry	29	57	14
Books, Records or Cards	65	31	4
Hair and Beauty	32	52	16
Services	28	60	12
Sporting Goods or Cameras	55	36	9
Wholesale and Manufacturing	10	72	18
Miscellaneous	31	51	18
Size of Establishment			
Small (1 to 5 employees)	31	48	21
Medium (6 to 25 employees)	53	34	13
Large (over 25 employees)	50	41	9
Ownership of Establishment			
Independent	29	55	16
Chain	58	29	13
Location of Establishment			
On an auto-free street	41	45	14
Not on an auto-free street	38	46	16
TOTAL	39	46	15

Source: Weisbrod et al. (1981); results from 1978 and 1980 Business Establishment Surveys.

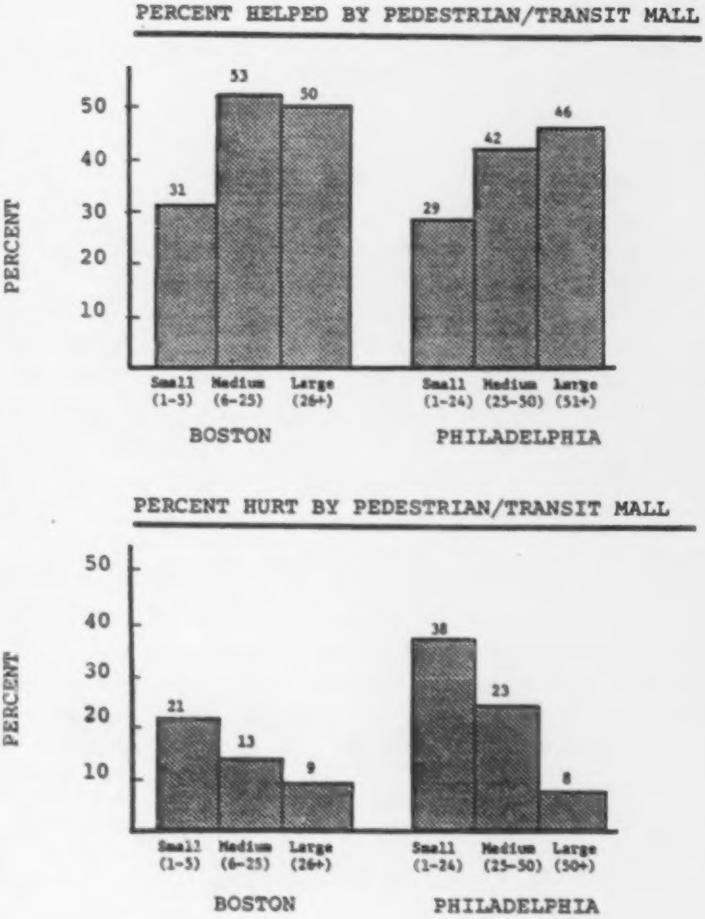

FIGURE 3-1. PERCEIVED IMPACT OF PEDESTRIAN/TRANSIT MALL ON BUSINESS: BOSTON & PHILADELPHIA

yet joined, and there are few members among the wholesale and service sectors. It is particularly notable that several of the chain clothing stores have resisted joining; the local managers of some chain stores have shown less of an interest in involvement in local issues and promotions, although additional work to track down the regional managers have sometimes resulted in their joining. (While the department stores readily participate, the difficulty of getting small store chains involved in local merchant organizations and activities has also been observed by the Director of Chicago's State Street Council.)

The raising of funds for promotion and operation of the pedestrian zone and other activities of the merchant association has not been easy. Since the merchants saw that the construction and initial promotional activities of the Downtown Crossing project were 100 percent publicly funded, there has been initial difficulty in convincing some of them that they must now take over responsibility for activities to insure the continuing success of the Downtown Crossing shopping district. In addition, unlike the downtowns of some other cities, the large financial institutions in Boston are not located right in the retail district and so have not provided significant financial support for activities and promotion of the area. Also, the very high tax rate in Boston and the high costs of doing business in the downtown area have made fund-raising alternatives such as a legally mandated special assessment district politically infeasible. While the success of a voluntary membership organization remains to be seen, the establishment of a Downtown Crossing Association represents a step toward funding ongoing activities, promotion and improvements to the area by the merchants.

Building Renovations

There has been little new building renovation activity in the first three years since initiation of the Downtown Crossing project. The lack of any real store space improvements on Washington Street can be attributed to the lack of need for such investment. Even prior to implementation of the

Downtown Crossing project, there was little vacant ground floor retail space on Washington Street, and there was little need for storefront renovation (especially since the sidewalk canopies had already standardized storefront signs along two blocks of the street). Significant vacant retail space did exist, however, on Hawley Street and on Summer Street from Hawley to Chauncy (including the large former Kennedy's building). This vacant space exists on streets that have been subject to auto restrictions but have not received physical improvements, and has not been filled since implementation of the Downtown Crossing project. Vacant upper floor space above retail activities has also remained plentiful in the Downtown Crossing area.

4 TIME SERIES ANALYSIS

4.1 Overview

The time-series analysis is based on an evaluation of changes over time in business growth and composition within the revitalization zones and other parts of the seven case study cities: Baltimore, Boston, Madison, Memphis, New Orleans, Portland and Trenton. The primary data source for the is Dun's Market Identifiers (DMI), an information service of Dun and Bradstreet, Inc. The DMI historical file provides annual information for most businesses in the United States (including 4.6 million current records) for dates since 1972.[1] DMI information for each establishment includes street address, line of business (using the SIC--Standard Industry Classification), employment size, sales volume, and information concerning whether the establishment at that location is an independent business, a subsidiary or part of a chain. These variables are described in more detail in Table 4-1.

The availability of business address information makes it possible to construct profiles of businesses in specific areas of the seven case study cities, including the areas of focus of the revitalization projects as well as other "comparison" zones. The SIC codes are used as the basis for limiting this analysis to retail and service firms. The employment size, ownership type and business type (SIC) data are the bases for examining changes over time in the composition of retail activity that may be related to the revitalization projects. By matching business records across time periods, entry and exit rates can be computed. The employment and sales volume data provide further information about the growth of businesses

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[1] Information for 1969 and 1970 is also available, although businesses for those dates are classified by the 1967 SIC categories rather than the 1972-revised SIC categories.

TABLE 4-1

Dun's Market Indicators (Dun and Bradstreet) Variables

1. Firm name
2. Store trade name
3. Location of establishment (street address, city, state)
4. Year started business
5. Line of business: narrative description of primary line of business
6. Credit rating
7. Sales volume for firm
8. Net Worth
9. Number of employees at this establishment
10. Number of employees at all locations in the firm (records for headquarters only)
11. Primary four-digit SIC code
12. Secondary four-digit SIC code
13. Headquarters: yes or no
14. Branch: yes or no
15. Subsidiary: yes or no
16. City and state of the headquarters (if a branch or subsidiary)
17. Date of last record update

over time. The availability of this information on an annual basis makes it possible to examine trends over periods before and after the revitalization projects. The major analysis measures are summarized in Table 4-2.

To conduct the time-series analysis, records were obtained for all retail establishments and selected consumer-oriented services in each of the case study cities for five points in time. The Standard Industrial Classification codes for the types of business establishments included in the analysis are listed in Table 4-3. Records were obtained to construct profiles of businesses as of December 31 of the years 1972, 1974, 1977, 1978 and 1979. These dates were chosen to allow measurement of trends before initiation of the revitalization project improvements, during the revitalization projects and after completion of the improvements for each of nine downtown commercial revitalization projects in the seven cities. The timing of these revitalization projects relative to the DMI data points are shown in Figure 4-1.

4.2 Analysis Design

A. Comparative Profiles

In the initial stage of the empirical analysis, profiles are constructed for each of the seven study areas. Data on individual retail and selected service establishments within each study area are compiled from the Dun and Bradstreet files for five points in time, representing periods prior to, during and after the revitalization project. By constructing profiles of the overall composition of establishments over the seven-year span, it is possible to identify important characteristics of such areas and the establishments located there. These profiles are constructed along three basic dimensions: the sizes of the establishments, the types of merchandise or services offered, and whether the establishments are independent, subsidiaries or part of a chain.

TABLE 4-2

Dimensions of the Analysis of Time Series Changes

Impact Measures:	Number and Incidence of Firms
	Rate of Entry
	Rate of Exit/Survival
	Change in Employment Size
	Change in Sales
Analysis Periods:	Trend prior to Revitalization Project
	Immediate Change
	Trend after Revitalization Project
Classification of Firms:	SIC Group
	Ownership (Independent, chain/subsidiary)
	Size (employees)
Study Areas:	Revitalization Zone
	Comparison Area (Other major Shopping District within or Outside of the CBD)
	Rest of Central Business District (CBD)

TABLE 4-3

Categories Included in the Analysis

RETAIL TRADE

52	Building Materials & Garden Supplies (partial)
5231	Paint, glass, and wallpaper stores
5251	Hardware stores

53	General Merchandise Stores (all)
5311	Department stores
5331	Variety stores
5399	Misc. general merchandise stores

54	Food Stores (all)
5411	Grocery stores
5422	Freezer and locker meet provisioners
5423	Mean and fish (seafood) markets
5431	Fruit stores and vegetable markets
5441	Candy, nut, and confectionery stores
5451	Dairy products stores
5462	Retail bakeries--baking and selling
5463	Retail bakeries--selling only
5499	Miscellaneous food stores

55	Automotive Dealers & Service Stations (partial)
5531	Auto and home supply stores
5541	Gasoline service stations

56	Apparel and Accessory Stores (all)
5611	Men's and boys' clothing & furnishings
5621	Women's ready-to-wear stores
5631	Women's accessory and specialty stores
5641	Children's and infants' wear stores
5651	Family clothing stores
5661	Shoe stores
5681	Furriers and fur shops
5699	Miscellaneous apparel & accessories

57	Furniture and Home Furnishings Stores (all)
5712	Furniture stores
5713	Floor covering stores
5714	Drapery and upholstery stores
5719	Misc. home furnishings stores
5722	Household appliance stores
5732	Radio and television stores
5733	Music stores

58	Eating and Drinking Places (all)
5812	Eating places
5813	Drinking places

59	Miscellaneous Retail (all)
5912	Drug stores and proprietary stores
5921	Liquor stores
5931	Used merchandise stores
4951	Sporting goods and bicycle shops
5942	Book stores
5943	Stationery stores
5944	Jewelry stores
5945	Hobby, toy, and game shops
5946	Camera & photographic supply stores
5947	Gift, novelty, and souvenir shops
5948	Luggage and leather goods stores
5949	Sewing, needlework, and piece goods
5961	Mail order houses
5962	Merchandising machine operators
5963	Direct selling organizations
5982	Fuel and ice dealers, nec
5983	Fuel oil dealers
5984	Liquefied petroleum gas dealers
5992	Florists
5993	Cigar stores and stands
5994	News dealers and newsstands
5999	Miscellaneous retail stores, nec

SERVICES

72	Personal Services (all)
7211	Power laundries, family & commercial
7212	Garmet pressing & cleaners' agents
7213	Linen supply
7214	Diaper service
7215	Coin-operated laundries and cleaning
7216	Dry cleaning plants, except rug
7217	Carpet and upholstery cleaning
7221	Photographic studies, portrait
7231	Beauty shops
7241	Barber shops
7251	Shoe repair and hat cleaning shops
7261	Funeral service and crematories
7299	Miscellaneous personal services

75	Auto Repair, Services and Garages (all)
7512	Passenger car rental and leasing
7513	Truck rental and leasing
7519	Utility trailer rental
7523	Parking lots
7525	Parking structures
7531	Top and body repair shops
7534	Tire retreading and repair shops
7535	Paint shops
7538	General automotive repair shops
7539	Automotive repair shops, nec
7542	Car washes
7549	Automotive services, nec

76	Miscellaneous Repair Services (partial)
7622	Radio and television repair
7623	Refrigeration service and repair
7629	Electrical repair shops, nec
7631	Watch, clock,and jewelry repair
7641	Reupholstery and furniture repair

78	Motion Pictures (partial)
7832	Motion picture theatres, ex drive-in

79	Amusement & Recreation Services (partial)
7911	Dance halls, studios, and schools
7932	Billiard and pool establishments
7933	Bowling alleys
7941	Sports clubs and promoters
7993	Coin-operated amusement devices
7996	Amusement parks
7997	Membership sports & recreation clubs
7999	Amusement and recreation, nec

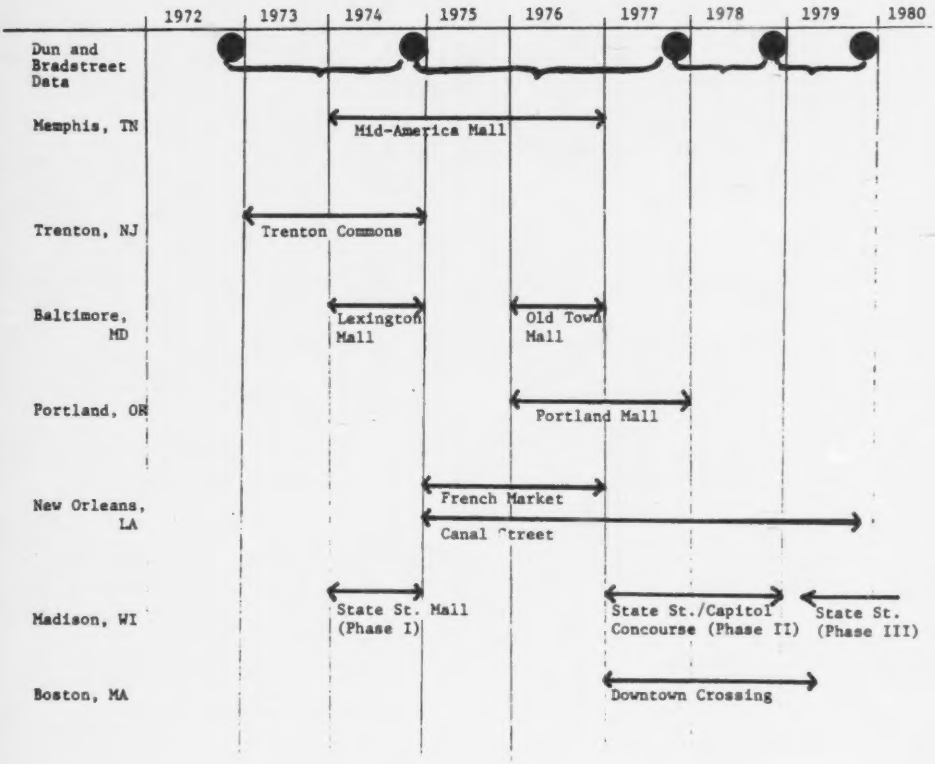
1972
1973
1974
1975
1976
1977
1978
1979
1980
Dun and Bradstreet Data
Memphis, TN
Mid-America Mall
Trenton, NJ
Trenton Commons
Baltimore, MD
Lexington Mall
Old Town Mall
Portland, OR
Portland Mall
New Orleans, LA
French Market
Canal Street
Madison, WI
State St. Mall (Phase I)
State St./Capitol Concourse (Phase II)
State St. (Phase III)
Boston, MA
Downtown Crossing

FIGURE 4-1. PROJECT TIMING AND ANALYSIS PERIODS

A number of questions are addressed by these profiles:

1. Size/Ownership Composition--Does the number and incidence of small, independent establishments increase or decrease immediately after a revitalization project?

2. Survival/Exit Rates--Do individual small, independent establishments exit the study area (by either going out of business or moving out of the area) after a revitalization project?

3. Sales/Employment Change--Do individual small, independent establishments that remain in the study area increase or decrease their sales volume and employment immediately after a revitalization project.

4. Entry Rates--Do new individual small, independent establishments enter the study area after a revitalization project?

5. Business Type Composition--Does the SIC composition of both small and large, multi-establishment and single-establishment firms located within the study area change after a revitalization project?

B. Time Trends

While these five possible types of changes are interesting in their own right, it is important to know whether the particular changes observed could have been anticipated in the absence of the redevelopment. The second stage of our analysis helps to determine whether this is indeed the case. By tracing the retail and selected service establishments in the study area over the seven-year period, it is possible to ascertain whether the changes that occur immediately after the redevelopment are continuations of past trends or genuine deviations from those trends. This is done by comparing the patterns of change between the pre-revitalization observations with the patterns of change between the observations since completion of the revitalization improvements.

C. Geographic Differences

In the third stage of this analysis, the profiles already developed are compared to similar profiles for retail and selected service establishments in other competing retail districts in the central city and for the rest of the Central Business District (CBD) beyond the study areas. These comparisons, coupled with the before-and-after comparisons already included in the profiles, make it possible to determine whether the patterns of change identified in the initial profiles reflect the effects of the study area's special investment or are simply the consequence of forces shaping central city economy.

4.3 Definition of Measurement Variables and Notes on the Use of the Dun and Bradstreet Data Files to Analyze Time-Series Business Trends

Before constructing the time-series profile, it is extremely important to understand the strengths and limitations of the Dun and Bradstreet files for addressing various analysis issues and to review the series of data preparation steps necessary before useful analysis can be performed on the data.

A. Coverage

The Dun and Bradstreet DMI files represent a sample, not a census of business establishments. The level of coverage varies by business type. Although the files are maintained by Dun's Marketing Services, they are based on data collected by Dun and Bradstreet's Credit Division, which assigns credit ratings to businesses for the interest of financial institutions. Businesses that have borrowed money or applied for insurance are most likely to have Dun and Bradstreet records. Businesses, including retail stores, that purchase and maintain inventories are more likely to meet these conditions than are service establishments. In fact, services such as beauty salons, barber shops, lawyers, doctors and accountants are poorly represented.

Dun and Bradstreet (D&B) reports that their files have a strong representation of small firms, since they often depend on credit worthiness for loans. At the same time, an analysis of the Dun and Bradstreet coverage in one town in Michigan found that the files most often missed the "mom and pop businesses," including those small operations that work with little inventory. Large businesses which are privately held and financed can also be missed in the D&B files, including businesses with several thousand employees (Verway, 1980).

According to Dun and Bradstreet, their coverage is exceptional for business headquarters and single location firms that are distribution and purchasing locations. The coverage is weak for stores that are not purchasing locations. While branch locations can be included, the D&B files miss branch locations that are stocked exclusively from a central distribution center.

The study by Verway (1980) compared Dun and Bradstreet coverage with a census of businesses constructed from the telephone directory and on on-site visit for the town of Harrison, Michigan. That study found that of 220 businesses in the town, 107 were listed in the D&B files. The files had another 17 establishments not listed in the Yellow Pages, of which the existence of 14 of them was corroborated. Among retail firms (SIC 52-59), 62 of the 101 firms listed in the Yellow Pages were in the D&B files; another 6 firms were in the files but not in the Yellow Pages. Among services (SIC 72, 76, 79), just 8 of 29 firms were listed in D&B files. Comparisons of locally-provided lists of businesses with the D&B listing for 1978 are shown in Table 4-4 for typical blocks in downtown Boston. The level of coverage found there is similar--51 percent for ground floor retail businesses and 27 percent for upper story businesses and services.[1] It is notable

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[1] The number of retail establishments listed in the 1977 Dun and Bradstreet files for the Central Business Districts (CBDs) of the seven-study cities are approximately 2/3 to 3/4 the number of firms listed for those areas in the 1977 Census of Retail Trade; the major exceptions are Baltimore and Portland, for which the definition of the CBDs used for this analysis were areas larger than the Census definition.

TABLE 4-4

Comparison of Dun and Bradstreet Coverage with Locally-Provided Street Census: Boston 1977

Street No.	Stores	Covered in DMI File (x = Yes)
A. Washington Street (three blocks)		
315	Pearle Vision Center	Missing
322	Kimball Jewelers	X
325	McDonalds	Missing
329	Robinson & Co. Jewelers	X
330	Friendly Family Center	Missing
333	108 Establishments (mostly jewelers)	X (45 of 108)
335	The Coffee Shop	Missing
339	Wig City of Boston	X
343	Nature Foods Centre	jewelry store listed
345	Regal Shoes	Missing
349	Wrangler Wranch	X
350	F.W. Woolworth Co.	X
351	Fayva Shoes	Missing
365	Ruggles Pizza	Missing
367	Yogurt Yes	X
371	Florsheim Shoes	drug store listed
373	72 Establishments (mostly jewelers)	X (8 of 72)
375	Liggett Rexall Drugs	X
381	Thom McAnn Shoes	Missing
383	Walden Books	Missing
385	Boston Five Cents Savings Bank	NA
387	70 establishments-mostly jewelers	X(24 of 70)
405	Linen Mart	X
411	I.J. Fox, Inc. (furriers)	X
417	Suffolk Wallpaper & Supply Co.	X
417	Cummin's Furs Inc.	X
426	Filene's Dept. Store	X
427	E.B. Horn Co. (Jewelers)	X
449	Brass Lantern Restaurant	Missing
450	Jordan Marsh Dept. Store	X
459	Lerner Shops (Clothes)	Missing
469	Rogers/Markson Bros. (jewelry)	X
477	SS. Kresge Co.	X
B. Winter Street (two blocks)		
6	Alberts' Primrose Shop	X
8	44 Establishments (mostly hair/beauty)	X (4 of 44)
10	Dee's Jewelry Inc.	X
12	You and You Levis Store	Missing
13	Baker's Shoes	Missing
17	The Wild Pair	Missing
19	Jeans West	Missing
24	A. Stowell Co. (Jewelers)	X
	Marianne Shop (Clothing)	Missing
30	Provident Institution for Savings (Bank)	NA
31	Chandlers Shoes	Missing
35	Jewel Shop	Missing
39	Edwin Case Shoes	X
40	Roaman's Womens Wear	Missing
41	11 Establishments (beauty & tailor)	X (2 of 11)
43	TAD Power Temporary, Inc.	NA
44	Homer's Jewelry	X
45	Solby Bayes (Shoes)	X
47	9 Establishments (offices)	NA
48	Miles Stationary	X
48	Chock Full of Nuts	Missing
49	Boston Five Cents Savings Bank	NA
54	Hayatt Shoes	X
56	Edward's Fur Shop	Missing
58	7 Establishments (Miscellaneous)	X (1 of 7)

Total Coverage in Dun & Bradstreet file (excluding banks):
51% (24 of 47) for ground floor business
27% (84 of 312) for upper story service establishments

that the stores missed by the D&B files are to a large extent chain stores and upper-story jewelry businesses and services. This finding suggests that profiles of businesses by ownership type will underrepresent the number of chain stores relative to independently owned stores.

Yet another aspect of coverage concerns the existence of multiple records on the same business establishment. An in-depth analysis of these multiple records was performed only on the Boston data. Each of the following types of cases were encountered:

- o Duplicate records. For these cases, the duplicates should clearly be deleted. (see Figure 4-2a)
- o Records with slightly variant business names but with identical addresses, SIC (line of business) codes, and data on employment size, sales and year started. These cases can also be considered duplicates (see Figure 4-2a).
- o Records with similar but variant names, with identical addresses and SIC (line of business codes), but with differences in employment size, sales and year started. For these, it was often unclear whether the records represented separate divisions operating out of the same address or merely different versions of data on the same business (see Figure 4-2b).

The omissions and duplication within the Dun and Bradstreet data files indicate the need for careful data preparation before any analysis is performed. Nevertheless, it should be noted that alternative data sources on business patterns have also been found to have serious omissions in coverage and accuracy (Verway 1980). These include: State Department of Treasury data, State Unemployment Office data bases (used by the Bureau of Economic Analysis), County Business Patterns (based on Social Security Administration files) and the Censuses of Retail Trade and Wholesale (based on IRS records).

B. Classifying Businesses by Small Area Geographic Zones

Business establishment locations are numerically coded in the Dun and Bradstreet files to the level of city and state; finer classification of geographic locations depend on using the street address and zip code

FIGURE 4-2

Problems in Identifying Duplicate Records and Classifying Business Locations by Address

A. Multiple records on the same establishment are sometimes identical and sometimes include slight variations in business name and address.

```
DEAN JOHN COIN CO INC              31 BROMFIELD ST
SAGER JEWELRY CO INC               34 BROMFIELD ST
SAGER JEWELRY CO INC               34 BROMFIELD ST
BROMFIELD PEN CENTER INC THE       37-39 BROMFIELD ST
NARBONNE SHOE CO INC             32 SUMMER ST
LONG THOMAS COMPANY              40 SUMMER ST
LONGS INCORPORATED               40-42 SUMMER ST
LONG THOMAS JEWELRY CORP         42 SUMMER ST
```

B. It is sometimes unclear whether the multiple listing on a single address are the business or not. In some of these cases, employment and sales are identical for each of the multiple listings, in other cases they are not.

```
DEES CARDS OF BOSTON INC      131 STATE STREET
DEES CARDS OF EASTFIELD INC   131 STATE STREET
DEES CARDS OF WORCESTER INC   131 STATE STREET
DEES CARDS OF CONNECTICUT INC 131 STATE ST
```

C. Computer classification of businesses into geographic zones on the basis of street name requires manual checking to catch misspelled streets.

```
TOURAINE LUNCH CO*               689 WASHIGTON ST               2111
FANCY WATCH CRYSTAL JEWELRS      333 WASHINGTOM ST              2108
ROSENKRANZ ARNOLD FURS INC       600 WASHINGTON                 2111
```

D. Care must also be taken to recognize variation in listing of the street.

```
BOSTON SILVER & STONE INC       FANEUIL HALL MARKET PLACE     2109
ROBERT TODD LTD INC             FANEUIL HALL MARKETPLACE      2109
FOLKLORICA                      150 FANEUIL HALL MARKTPLC     2109
BERENSON M & COMPANY INC        104-114 FANEUIL HALL MKT      2109
PILOT RESTAURANT INC            200 FANEUIL HALL MKT PL       2109
JEANNETTOS                      200 FANUEIL HALL              2109
DURGIN-PARK INC                 340 FANUEIL HALL MARKET       2109
```

E. Even for a single company, address spelling and zip code are subject to fluctuation from year to year.

```
03439262FARLEY E A FLORIST INC
3333 GENTILLY BLVD      70122
333 GENTILLY BLVD       70182
3333 GENTILLY BLVD      70182
3333 GENTILLY BLVD      70182
3333 GENTILLY BLVD      70182

00818749LOUISIANA COCA COLA BTLG
1050 S JFF DVS PKY            5341
1050 S JEFFERSON DAVIS PK 5962
1050 S JEFFERSON DVS PKWY 5962
1050 S JFRSON DVS PKWY    5962

00610593HAUTZ PAINT
925-939 E WSHNGTN       53701
925-939 E WASHINGTON AVE53701
925-939 E WISCONSIN AVE 53707
```

information supplied. For this study, businesses within the study cities were classified by whether they were located within the specific sets of blocks that comprise the revitalization districts, comparison areas or remainder of the central business districts (CBDs). Businesses not in any of these zones were deleted from the analysis file.

Businesses were classified into geographic districts on the basis of street addresses and zip codes. For analysis purposes, the revitalization districts within each city were defined to include all stores on the blocks that had physical improvements made plus stores on intersecting streets within one block of the primary improved street(s).[1] The comparison areas consist of selected competing shopping areas in the central city and include both planned shopping centers and other major shopping districts. The "rest of the CBD" categories are defined to include all zip codes with major portions inside the Census-defined CBD boundaries and thus tend to encompass areas slightly larger than the Census definition of the CBDs.

The computer classification of businesses into geographic zones required a long series of decision rules for identifying the appropriate street names and number ranges to be included in each geographic zone for the case study cities. The lack of any consistent handling of street abbreviations (e.g., "Avenue" vs. "Ave" vs "__") makes this task more complex. Hand checking of the resulting geograhpic classifications revealed a significant frequency of misspellings in street names, minor errors in street numbers and incorrect zip codes. The errors were frequently of a nature that would not impede the delivery of mail but were sufficient to lead to the misclassification or deletion of the data records (e.g., see Figure 4-2c,d). Several hundred errors, a majority of which were zip code errors, were corrected manually.

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[1] Street address ranges corresponding to the selected blocks were obtained through the use of Polk Company Street Directories plus local observations.

C. Identifying Store Entry and Exits

The entrance of a new business establishment into a zone may result from the formation of a new enterprise or the movement of a business from a different location. Conversely, the exit of an existing business from a zone may reflect the dissolution of that enterprise or its movement to a location outside the zone. By linking the records on a business for every year, it is possible to trace changes in address of the business. The year in which a business is started is indicated in the Dun and Bradstreet records for headquarters and independent businesses only; for a branch the year can only be inferred by noting the year in which a record for that establishment first appears. The death of a business must be inferred by noting the year in which records for that establishment cease to exist.

Rates of store entry and exit from the revitalization zones and comparison zones, whether due to creation/death of the businesses or simply movement in their locations, reflect the viability of various types of businesses in those zones. Accordingly, the analysis in this study focuses on measuring the extent of store entry and exit from the zones regardless of cause. Since this is measured by comparing the records on each business for the five points in time from 1972 to 1979, the accuracy of the address information and its consistency over time become critical. For example, errors in a street address or zip code for a single year could lead to the classification of the business location as outside its actual location zone for that year, thus causing the business to be incorrectly counted as exiting the zone in the prior year and reentering the zone in the following year. (See Figure 4-2e). To correct for such spurious entrances and exits, records for some businesses that had changes over time in zip codes or street addresses over time were manually checked. (In fact, this time-series comparsion of addresses was responsible for the identification of most of the address errors that were found).

D. Measuring Business Growth

The growth or decline of a business operation can be measured by measuring shifts in sales or shifts in employment. Sales changes are subject to price inflation, which differs greatly by type of merchandise sold or service provided. More importantly, sales data in the Dun and Bradstreet files are not available for branch operations. Thus, employment is used in this study as the primary measure of expansion or contraction of business activity at each establishment.

Dun and Bradstreet attempts to update the records on each of its 4.6 million businesses annually--a formidable task. A problem that limits the usefulness of these data for time-series analysis of business growth as well as entry/exit measurement is that records are in fact not updated every year for every business. Records are most likely to be updated when there are credit inquiries on them. Analysis of the latest report date for businesses in downtown Boston revealed the following distribution:

TABLE 4-5:

Date Distribution of Most Recent Report Update

within the current year	68 %
during the previous year	11
two years earlier	12
three years earlier	6
four or more years earlier	3
	100 %

(Source: Downtown Boston, December 31, 1977 file)

For any given period between the 5 points in time employed in this study, it is clearly not possible to observe entry, exit or business growth for those firms whose records were not updated during the period. Observations for such businesses are thus deleted from the analysis for the time periods in question.

4.4 Categorization of Business Ownership, Size and Type

A. Ownership Type

The Dun and Bradstreet files identify whether an establishment is the headquarters or branch of a multi-establishment firm, or else a single-location business. For purposes of analyzing retail and service businesses, the multi-establishment firms can be considered to be "chains" while the single location businesses are "independents". Both single and multi-establishment firms can be subsidiaries of other firms. For the analysis presented in this report, single-location firms which are subsidiaries of larger firms are placed into the category of "chain/subsidiary" (sometimes referred to simply as chains). The purpose here is to isolate the independently-owned businesses from those owned by larger corporations. It has been suggested that the latter group is better able to enter new markets, successfully compete and expand due to advantages in financial backing, access to capital, management sophistication and more aggressive marketing--particularly compared to the small independent businesses. As shown in Table 4-5, independent-owned businesses are most common among the business categories of restaurants/bars, jewelry/furs, hair/beauty, and services.

B. Store Size

Store size is important as a means of differentiating the larger-size independent businesses from the small shops. After all, it is the small independent businesses that are most at a disadvantage in financing and advertising compared to the larger businesses and chains.[1] Regardless of ownership type, store size is an important means of classifying businesses because smaller operations tend to be more able to enter and exit an area rapidly than are very large size stores.

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[1] There is also a literature which associates increased size beyond a certain point with decreased efficiency largely due to managerial administration and associated "X-inefficiency" (H. Lieberstein).

The size of a business at a given location could be classified on the basis of floorspace, employment or sales. Employment is available for both independents and chains in the Dun and Bradstreet files and represents a consistent measure not subject to inflation or differential shifts on prices among different merchandise/service types. (In addition, sales volume data are not available for branch locations on the Dun and Bradstreet files). Any classification of businesses by size is, of course, arbitrary. For purposes of differentiating the small shops from the large operations, small stores are here classified as establishments with 1-19 employees (full-time equivalent), and large stores as those with 20 or more employees. This corresponds to the employment size definition proposed by the SBA Office of Economic Research for distinguishing small size businesses from larger businesses and is generally consistent with the SBA loan program eligibility standards for retail businesses.[2] Table 4-6 shows that the large size stores are most frequently general merchandise chain stores and independent restaurants and bars.

C. Chain Size

The categorization of business establishments by store size and ownership type does make it possible to identify the group of most interest for this study--the small, independent store or service. The major shortcoming of these analysis categories is that they fail to differentiate between the small business person owning two small shops and the large national chain with hundreds of stores. Both may be small-store chains (where chain is defined as any multi-establishment firm). The Dun and Bradstreet files do not provide any information on the number of establishments in a chain or whether the chain locations are all local, within the region, or nationally dispersed.

---

[2] The definition of a small business for purposes of receiving SBA loans is set forth under Title 13, Code of Federal Regulations, Section 121.3. Among the retail and service businesses included in this study, businesses with annual receipts of under $2 million are eligible. Higher eligibility limits are set for: grocery and department stores--$7.5 million; variety stores--$3 million; clothing and appliances--$2.5 million.

TABLE 4-6

Relationship of Firm Size and Ownership to Merchandise Type:*

Boston CBD

	Independent		Chain		Total	
	1-19 Emp.	20+ Emp.	1-19 Emp.	20+ Emp.		
General Merchandise	60%	0%	17%	22%	100%	(N=18)
Apparel	60	3	38	3	100	(N=117)
Restaurants & Bars	62	23	9	7	100	(N=220)
Jewelry & Furs	83	3	11	3	100	(N=101)
Hair/Beauty & Services	85	5	10	0	100	(N=86)
Sports, Cameras, Luggage	73	5	22	0	100	(N=22)
Drugs, Books, Records	70	0	23	8	100	(N=53)
Home Furnishings	63	5	26	5	100	(N=38)
Grocery	79	0	21	2	100	(N=56)
Misc.	75	2	19	4	100	(N=159)

Source: Tabulation from 1977 Boston CBD records, Dun & Bradstreet

*Note: Chain stores with centralized purchasing are ommitted from the Dun Dun and Bradstreet data base; thus, this table understates the true proportion of chain stores.

Information on the size and geographic scope of a chain can be roughly approximated through the use of information on the chain headquarters. The records on each branch store location include the city, state and DUNS identification number of the headquarters. By then referring to the record of the corresponding headquarters, the total number of employees in the firm (at all locations) can be obtained. This number may be used as a basis for categorizing the size of the chain store company. Alternatively, the number of stores in the chain can be approximated by computing the ratio of:

$$\frac{\text{total employees in the company}}{\text{total employees in one branch store}}.$$

Unfortunately, both of these measures involve a process of first identifying the DUNS identification number of the headquarters and then searching the national files of all businesses to locate the records on those headquarters. Given a data base of only seven cities for this analysis, it was not possible to find the employment size of the chains except for the minority of chain stores whose headquarters were within those seven cities.

Yet another approximate means of differentiating chain size is to distinguish between chains with in-state headquarters and chains with out-of-state headquarters. This information is readily available on the individual establishment records for all chain stores and subsidiaries. In general, chain stores with out-of-state headquarters are likely to be part of major regional or national chains, whereas chain stores with headquarters in the local area are more likely to be small scale location operations. Of the chain stores on file for the downtowns of the seven study cities, the percent with in-state headquarters are: Memphis 47 percent, Trenton 38 percent, Boston 32 percent, Madison 32 percent, Baltimore 25 percent, Portland 13 percent and New Orleans 10 percent. It is not clear whether the sample on which this data is based is in fact representative of chain stores in those downtown areas.

D. Franchises

Franchise stores typically share the marketing, promotion and name-identification advantages enjoyed by large chain stores, but the stores are often independently owned. A franchise store may be owned by either an independent business person, a multi-unit corporation including all units of that franchise in the local area, or by the national franchisor. A franchise store can thus be classified as an independent business, a subsidiary or as a branch (chain) operation. In the context of analysis of differences in business growth and entry/exit rates between independent operations and chain stores, independently-owned franchises represent a type of business sharing aspects of both groups. For this reason, it can be particularly useful to identify the small independent businesses which operate under franchise names.[1]

No information on franchise status is available from the Dun and Bradstreet files, however. Instead, franchise status can only be checked by visually comparing the company name (or "trade style" operating name) of each establishment with a national listing of franchise names. The Boston and Trenton data files were compared with the US Department of Commerce's annual Franchise Opportunities Handbook. The 1979 edition of that book lists over 850 franchise names. Only a couple of franchises were found within the central business districts of either Boston or Trenton, meaning that franchises accounted for less than 2 percent of the business establishments listed. This is not surprising, especially since franchises are most frequently either restaurants or services; franchises selling retail merchandise are rare. Another reason for the low rate of identified franchises is that it is possible for an independent business to share a national name without being a franchise. The Hallmark Company, for example, reportedly gives the right to use its name to selected card shop operators selling primarily Hallmark cards. Given the difficulty in identifying independent businesses sharing national names and the low rate of observed franchises, these distinctions were not pursued in the remainder of the project analysis.

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[1] SBA recognizes a franchise operation as an independent, small business as long as the franchisee "has the right to profit from its effort and the risk of loss or failure, commensurate with ownership." (Sec. 121.3-2(e)). Thus, any unit not operated by a manager employed by the franchisor is an independent business, even if the franchisee leases the operation or is otherwise affiliated with the franchisor through common ownership or common management.

E. Business Type Classification

Trends toward a growing office employment base in many downtowns and increases in foot traffic encouraged by revitalization project improvements have implications for the mix of business activity there. Restaurants, bars and stores selling everyday items (e.g., clothing, drugs, books, etc.) could benefit more from these trends than stores selling higher priced goods (such as furniture and furs) that are seldom purchased by casual strollers. While there are 94 separate SIC categories for the types of retail and service businesses included in this study, these businesses can be classified into five major groups:

- General Merchandise and Apparel--the volatile fashion/clothing sector
- Durables--major purchases made infrequently but drawn from a wide market area
- Miscellaneous Non-Durables--lower-priced goods purchased more frequently
- Restaurants and Bars--catering to both shoppers and local area employees
- Personal Services and Repairs

These categories are further defined in Table 4-7.

TABLE 4-7

Business Type Categories Used in the Analysis

1. General Merchandise & Apparel

department stores, general goods, women's apparel, men's apparel, children's apparel, shoe stores

2. Restaurants and Bars

restaurants, bars

3. Durables

furniture, floor coverings, drapery, appliances, and miscellaneous home furnishings, jewelry and furs, sporting goods, cameras, luggage

4. Services

laundries, photographic, beauty shops, barber shops, shoe repair, auto repair, appliance repair

5. Miscellaneous Non-Durables

food stores, bakeries, movies theaters, amusements, wallpaper, hardware, drug stores, stationary stores, book stores, record shops, liquor, sporting goods, gift shops, tobacco shops, news stands

4.5 Findings on Changes in Business Mix, Entry/Exit and Business Growth

A. Profiles of Business Mix

Table 4-8 shows the profiles of store size/ownership type and business type for the revitalization districts and comparison areas in each of the study cities for five different times over the 1972-1979 period. Major findings are:

Differential Ownership Types

- Chain stores are virtually non-existent in the specialty retailing centers (Baltimore-Old Town and New Orleans-French Market). Suburban-style shopping malls were located within the city limits in four of the study cities. These shopping centers had much higher proportions of chain stores present than did the overall central business districts for three of the cities (Baltimore, Madison and Portland). While the Dun and Bradstreet data are known to underestimate the number of chain stores actually present, it is notable that there was still significant variation in the proportion of chain stores among the downtown revitalization districts; it was significantly higher in the Baltimore and Memphis downtown revitalization districts than in any of the other five cities.

- The displacement of independent businesses by chain stores following downtown revitalization projects exists in some cities but is not universal. Among the downtown revitalization districts, the proportion of chain stores has been rising dramatically in the New Orleans and Portland districts (and to a smaller extent in the Boston district), but dropping in the less successful Baltimore (Lexington Mall), Memphis and Trenton revitalization districts.[1,2] Among the overall central business districts, however, the proportion of chain stores has simultaneously been rising for all five larger cities; only the CBDs of the two small cities (Madison and Trenton) did not experience any increase in the net proportion of chain stores.

Differential Business Types

- All of the downtown revitalization districts (except for New Orleans' tourist-oriented French Market) are dominated by variety

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[1] Judgements on the relative success of the various projects are of course subjective, but are based on findings from the case studies in Chapter 3.

[2] The case study for Trenton Commons noted increases specifically in chains that are fast food restaurants--a type of chain store most likely to be missed by Dun and Bradstreet because of their centralized purchasing.

(general merchandise) stores, apparel shops and stores selling various non-durables (lower priced goods). In five of the seven cities, the downtown revitalization district has far fewer restaurants than the rest of the CBD. Only the Portland Mall and New Orleans-Canal Street feature as many restaurants as the rest of the CBD.

- Shifts in the types of businesses in the revitalization districts varied from city to city. Among the revitalization districts, there were proportional increases in general merchandise/apparel stores in the Portland and Trenton districts; increases in restaurants in the Memphis and Baltimore (Lexington Mall) districts; increases in services in the Baltimore, Madison and New Orleans (Canal St.) districts; and increases in durables in the Boston and Trenton districts.

Generally, it is believed that increases in apparel stores and restaurants follow increases in pedestrian levels in the successful revitalization projects. The findings from Table 4-8 are consistent with the locally observed increases in restaurants in Memphis and apparel stores in Portland that were noted in the case studies (Ch. 3). The numbers in the table do not, however, reflect the recent increases in fast food restaurants in Trenton nor the increases in independent restaurants in Madison, which were noted locally. The relative increases in stores selling consumer durables in Boston and Trenton are also inconsistent with locally-observed trends, although the level of consumer durable establishments in Boston is attributable to the inclusion of a large number of upper floor jewelry/diamond businesses.

Total Number of Businesses Present

- The Dun and Bradstreet files had consistent increases over time for the revitalization zones in Madison and Portland, which are consistent with the locally-observed increases in business activity that were reported in the case studies (Chapter 3). On the other hand, the Dun and Bradstreet files had consistent decreases in the number of businesses for the revitalization zones in Baltimore (Lexington Mall), Boston, Memphis and Trenton. The finding for downtown Boston does not reflect the locally-observed increases in new business entry that have occurred since 1979. In general, changes in the absolute number of businesses observed in the revitalization zones and comparison zones from the Dun and Bradstreet file must be interpreted with care, since they reflect the differential coverage of the Dun and Bradstreet files among different business types and ownership types.

TABLE 4-8 (A). PROFILE OF BUSINESS MIX OVER TIME
(Percent of businesses by type)

Baltimore

	Dec. 1972	Dec. 1974	Dec. 1977	Dec. 1978	Dec. 1979
Lexington Mall					
(small independent)	(48.2)	(55.6)	(50.0)	(58.3)	(56.5)
total independent	66.7	66.7	59.2	75.0	69.6
chain/subsidiary	33.3	33.3	30.8	25.0	30.4
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	44.4	44.4	38.5	41.7	47.8
Restaurants & Bars	0	0	7.7	12.5	13.0
Consumer Durables	11.1	18.5	15.4	16.7	8.7
Services	0	0	3.9	4.2	4.4
Misc. (non-durables)	44.4	37.0	34.6	25.0	26.1
	100%	100%	100%	100%	100%
	(n=27)	(n=27)	(n=26)	(n=24)	(n=23)
Charles Center					
(small independent)	(60.9)	(59.4)	(67.9)	(70.8)	(70.8)
total independent	73.9	68.8	75.0	83.3	75.0
chain/subsidiary	26.1	31.2	25.0	16.7	25.0
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	17.4	21.9	21.4	20.8	16.7
Restaurants & Bars	21.7	15.6	17.9	20.8	25.0
Consumer Durables	4.4	6.2	7.1	4.2	0
Services	0	0	0	4.2	8.3
Misc. (non-durables)	56.5	56.4	53.6	50.0	50.0
	100%	100%	100%	100%	100%
	(n=23)	(n=32)	(n=28)	(n=24)	(n=24)
Rest of CBD					
(small independent)	(85.4)	(83.7)	(83.2)	(85.1)	(83.7)
total independent	91.9	6.5	89.5	91.5	89.9
chain/subsidiary	8.1	9.9	10.5	8.5	10.1
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	11.9	12.3	13.6	13.6	13.5
Restaurants & Bars	28.0	26.9	20.7	21.8	24.1
Consumer Durables	8.0	8.9	10.2	10.7	8.7
Services	5.7	6.4	7.0	7.3	8.2
Misc. (non-durables)	46.4	45.5	48.5	40.5	40.7
	100%	100%	100%	100%	100%
	(n=774)	(n=802)	(n=686)	(n=684)	(n=681)
Old Town Mall					
(small independent)	(86.0)	(88.6)	(93.1)	(94.3)	(94.7)
total independent	92.0	93.2	96.5	97.1	97.4
chain/subsidiary	8.0	6.8	3.5	2.9	2.6
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	50.0	54.6	41.4	42.9	42.1
Restaurants & Bars	8.0	9.1	10.3	8.6	7.9
Consumer Durables	8.0	9.1	10.3	8.6	5.3
Services	4.0	4.6	17.2	17.1	18.4
Misc. (non-durables)	30.0	22.7	20.7	22.9	26.3
	100%	100%	100%	100%	100%
	(n=50)	(n=44)	(n=29)	(n=35)	(n=38)

TABLE 4-8 (B). PROFILE OF BUSINESS MIX OVER TIME
(Percent of businesses by type)

Boston

	Dec. 1972	Dec. 1974	Dec. 1977	Dec. 1978	Dec. 1979
Downtown Crossing					
(small independent)	(82.4)	(80.2)	(78.0)	(79.0)	(78.3)
total independent	88.7	84.5	83.9	84.2	83.8
chain/subsidiary	11.3	15.5	16.1	15.8	16.2
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	18.1	18.3	16.1	14.9	16.7
Restaurants & Bars	8.8	7.9	6.8	7.0	8.1
Consumer Durables	7.6	10.3	15.3	16.2	15.2
Services	14.7	16.3	16.1	16.7	14.7
Misc. (non-durables)	50.8	18.7	45.8	22.8	45.5
	100%	100%	100%	100%	100%
	(n=238)	(n=252)	(n=236)	(n=228)	(n=200)
Rest of CBD (exc. Quincy Market)					
(small independent)	(83.8)	(83.2)	(80.0)	(77.5)	(76.9)
total independent	90.8	89.8	87.9	85.9	84.9
chain/subsidiary	9.2	10.2	12.1	14.1	15.1
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	18.3	17.7	15.0	15.4	15.5
Restaurants & Bars	31.5	31.4	29.9	30.2	32.0
Consumer Durables	5.9	6.3	7.7	7.4	6.1
Services	5.4	5.6	7.2	6.2	6.9
Misc. (non-durables)	39.0	39.1	40.2	40.8	39.6
	100%	100%	100%	100%	100%
	(n=629)	(n=685)	(n=692)	(n=693)	(n=671)
Back Bay (excl. Prudential Center)					
(small independent)	(74.3)	(75.0)	(78.6)	(76.4)	(75.9)
total independent	85.5	84.3	86.7	83.9	84.2
chain/subsidiary	14.6	15.7	13.3	16.1	17.8
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	34.5	28.2	26.2	24.7	26.9
Restaurants & Bars	9.7	10.7	10.5	12.4	10.7
Consumer Durables	18.5	20.8	17.3	17.2	15.8
Services	5.8	6.5	9.3	9.7	11.9
Misc. (non-durables)	31.5	33.8	31.9	31.1	34.8
	100%	100%	100%	100%	100%
	(n=206)	(n=216)	(n=248)	(n=257)	(n=253)

TABLE 4-8 (C). PROFILE OF BUSINESS MIX OVER TIME
(Percent of businesses by type)

Madison

	Dec. 1972	Dec. 1974	Dec. 1977	Dec. 1978	Dec. 1979
State Street/Capitol Concourse					
(small independent)	(79.)	(76.)	(81.)	(82.)	(82.)
total independen	87.	85.	91.	91.	91.
chain/subsidiary	13.	15.	09.	09.	09.
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	34.	30.	22.	21.	22.
Restaurants & Bars	25.	26.	27.	26.	27.
Consumer Durables	09.	10.	13.	12.	12.
Services	02.	04.	04.	08.	07.
Misc. (non-durables)	30.	30.	30.	32.	32.
	100%	100%	100%	100%	100%
	(n=185)	(n=182)	(n=204)	(n=208)	(n=214)
Rest of CBD					
(small independent)	(83.)	(81.)	(79.)	(78.)	(78.)
total independent	92.	86.	93.	90.	92.
chain/subsidiary	08.	14.	07.	10.	08.
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	17.	08.	02.	02.	03.
Restaurants & Bars	46.	50.	52.	56.	59.
Consumer Durables	03.	08.	12.	12.	08.
Services	09.	08.	07.	05.	05.
Misc. (non-durables)	26.	25.	26.	24.	24.
	100%	100%	100%	100%	100%
	(n=36)	(n=36)	(n=43)	(n=41)	(n=37)
Outlying Shopping Center					
(small independent)	(27.)	(27.)	(48.)	(54.)	(48.)
total independent	33.	33.	52.	58.	52.
chain/subsidiary	67.	67.	48.	42.	48.
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	79.	82.	64.	67.	65.
Restaurants & Bars	07.	06.	08.	04.	04.
Consumer Durables	07.	06.	08.	08.	08.
Services	00.	00.	08.	08.	08.
Misc. (non-durables)	07.	06.	12.	13.	15.
	100%	100%	100%	100%	100%
	(n=15)	(n=18)	(n=27)	(n=26)	(n=27)

TABLE 4-8 (D). PROFILE OF BUSINESS MIX OVER TIME
(Percent of businesses by type)

Memphis

	Dec. 1972	Dec. 1974	Dec. 1977	Dec. 1978	Dec. 1979
Mid-America Mall					
(small independent)	(36.6)	(45.0)	(56.6)	(56.0)	(61.6)
total independent	63.6	52.6	58.1	62.0	69.8
chain/subsidiary	36.4	47.3	41.9	38.0	30.2
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	45.7	55.7	58.1	58.0	57.0
Restaurants & Bars	8.5	6.1	8.6	9.0	11.6
Consumer Durables	7.8	6.9	7.5	8.0	8.1
Services	3.1	3.8	2.2	2.0	2.3
Misc. (non-durables)	34.9	27.5	23.6	23.0	20.9
	100%	100%	100%	100%	100%
	(n=131)	(n=132)	(n=104)	(n=108)	(n=86)
Rest of CBD					
(small independent)	(88.0)	(83.8)	(79.5)	(75.6)	(77.5)
total independent	93.6	89.5	85.9	85.9	87.3
chain/subsidiary	6.4	10.5	14.1	14.1	12.7
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	15.2	15.2	16.7	15.4	16.9
Restaurants & Bars	17.6	19.0	9.0	11.5	15.5
Consumer Durables	6.4	8.6	11.5	12.8	12.7
Services	10.4	10.5	9.0	10.3	11.3
Misc. (non-durables)	50.4	46.7	53.8	46.2	43.7
	100%	100%	100%	100%	100%
	(n=130)	(n=106)	(n=86)	(n=90)	(n=71)
Outlying Shopping Center					
(small independent)	(79.6)	(80.0)	(78.7)	(80.0)	(78.3)
total independent	87.8	87.7	87.6	88.4	88.0
chain/subsidiary	12.2	12.3	12.4	11.6	12.0
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	38.8	33.9	28.1	26.3	27.2
Restaurants & Bars	8.2	18.5	16.9	15.8	16.3
Consumer Durables	2.0	4.6	7.9	8.4	9.8
Services	6.1	6.2	6.7	8.4	9.8
Misc. (non-durables)	44.9	36.9	31.5	41.0	36.9
	100%	100%	100%	100%	100%
	(n=49)	(n=65)	(n=98)	(n=107)	(n=92)

TABLE 4-8 (E). PROFILE OF BUSINESS MIX OVER TIME
(Percent of businesses by type)

New Orleans

	Dec. 1972	Dec. 1974	Dec. 1977	Dec. 1978	Dec. 1979
Canal Street-Primary					
(small independent)	(84.2)	(75.0)	(8.10)	(78.3)	(76.2)
total independent	94.7	90.0	90.5	87.0	85.7
chain/subsidiary	5.3	10.0	9.5	13.0	14.3
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	15.8	15.0	14.3	13.0	14.3
Restaurants & Bars	31.6	20.0	19.1	13.0	14.3
Consumer Durables	10.5	10.0	9.5	8.7	4.8
Services	5.3	5.0	14.3	13.0	14.3
Misc. (non-durables)	36.8	50.0	42.9	52.2	14.6
	100%	100%	100%	100%	100%
	(n=19)	(n=20)	(n=24)	(n=25)	(n=22)
Canal Street-Secondary					
(small independent)	(56.5)	(55.1)	(47.8)	(50.0)	(51.1)
total independent	67.1	64.1	56.5	9.6	58.1
chain/subsidiary	32.9	35.9	43.5	40.4	41.9
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	49.4	43.6	47.8	46.8	50.0
Restaurants & Bars	5.9	2.6	4.4	4.3	3.5
Consumer Durables	9.4	14.1	10.9	11.7	11.6
Services	3.5	3.9	5.4	8.5	5.8
Misc. (non-durables)	31.8	36.0	31.5	17.0	29.1
	100%	100%	100%	100%	100%
	(n=87)	(n=80)	(n=100)	(n=97)	(n=86)
Rest of CBD					
(small independent)	(88.5)	(87.5)	(84.5)	(84.8)	(86.9)
total independent	94.5	94.3	91.7	8.0	92.7
chain/subsidiary	5.5	5.7	8.3	7.2	7.3
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	9.5	8.0	9.1	7.8	9.1
Restaurants & Bars	23.7	23.9	19.1	21.4	20.7
Consumer Durables	5.7	6.1	8.3	8.0	6.4
Services	8.3	9.4	11.0	11.3	11.6
Misc. (non-durables)	52.8	52.6	52.5	51.5	52.2
	100%	100%	100%	100%	100%
	(n=541)	(n=515)	(n=557)	(n=548)	(n=466)
French Market					
(small independent)	(88.5)	(90.3)	(94.9)	(95.1)	(95.0)
total independent	100.0	96.8	100.0	100.0	100.0
chain/subsidiary	0	3.2	0	0	0
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	11.5	6.5	2.6	4.9	5.0
Restaurants & Bars	30.8	22.6	25.6	19.5	22.5
Consumer Durables	0	0	5.1	7.3	7.5
Services	0	0	2.6	2.4	2.5
Misc. (non-durables)	57.7	71.0	64.1	65.9	63.5
	100%	100%	100%	100%	100%
	(n=27)	(n=32)	(n=44)	(n=43)	(n=40)

TABLE 4-8 (F). PROFILE OF BUSINESS MIX OVER TIME
(Percent of businesses by type)

Portland

	Dec. 1972	Dec. 1974	Dec. 1977	Dec. 1978	Dec. 1979
Portland Mall					
(small independent)	(77.3)	(83.3)	(78.7)	(80.6)	(71.9)
total independent	90.9	90.5	85.6	85.1	80.7
chain/subsidiary	9.1	9.5	16.4	14.9	19.3
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	4.6	9.5	31.2	31.3	26.3
Restaurants & Bars	27.3	23.8	21.3	19.4	24.6
Consumer Durables	6.8	7.1	8.2	7.5	5.3
Services	6.8	4.8	4.9	4.5	3.5
Misc. (non-durables)	54.5	54.8	34.4	37.3	40.3
	100%	100%	100%	100%	100%
	(n=44)	(n=42)	(n=61)	(n=67)	(n=57)
Rest of CBD					
(small independent)	(82.2)	(79.4)	(77.5)	(79.2)	(80.2)
total independent	88.7	86.9	86.2	86.8	86.0
chain/subsidiary	11.3	13.1	13.8	13.2	14.0
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	19.7	16.8	16.6	16.2	16.3
Restaurants & Bars	23.6	23.6	22.9	22.8	23.9
Consumer Durables	9.2	73.2	12.2	13.4	12.9
Services	6.1	6.2	5.7	6.4	7.1
Misc. (non-durables)	30.1	32.7	35.4	34.7	39.8
	100%	100%	100%	100%	100%
	(n=426)	(n=452)	(n=458)	(n=470)	(n=435)
Lloyd Center					
(small independent)	(67.3)	(60.7)	(50.6)	(49.4)	(45.0)
total independent	74.5	73.2	62.0	59.7	55.0
chain/subsidiary	25.5	26.8	38.0	40.3	45.0
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	25.5	25.0	26.6	26.0	31.3
Restaurants & Bars	14.6	16.1	17.7	16.9	15.0
Consumer Durables	16.4	19.6	13.9	14.3	15.0
Services	5.5	5.4	8.9	10.4	8.8
Misc. (non-durables)	38.2	33.9	26.6	26.0	30.0
	100%	100%	100%	100%	100%
	(n=55)	(n=56)	(n=79)	(n=77)	(n=80)

TABLE 4-8 (G). PROFILE OF BUSINESS MIX OVER TIME
(Percent of businesses by type)

Trenton

	Dec. 1972	Dec. 1974	Dec. 1977	Dec. 1978	Dec. 1979
Trenton Commons					
(small independent)	(80.0)	(74.5)	(87.1)	(85.7)	(86.7)
total independent	90.0	78.7	90.3	92.9	93.3
chain/subsidiary	10.0	21.3	9.7	7.1	6.7
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	40.0	44.7	38.7	42.9	50.0
Restaurants & Bars	8.0	6.4	6.5	7.1	6.7
Consumer Durables	6.0	10.6	12.9	17.9	20.0
Services	6.0	2.1	3.2	3.6	3.3
Misc. (non-durables)	40.0	36.2	38.7	17.9	20.0
	100%	100%	100%	100%	100%
	(n=50)	(n=47)	(n=31)	(n=28)	(n=30)
Rest of CBD					
(small independent)	(93.0)	(90.1)	(92.0)	(90.1)	(90.4)
total independent	96.5	95.1	96.5	95.6	95.2
chain/subsidiary	3.5	4.9	3.5	4.4	4.8
	100%	100%	100%	100%	100%
Gen. Merch. & Apparel	20.1	17.9	21.2	24.2	24.1
Restaurants & Bars	26.6	29.0	23.9	18.7	19.3
Consumer Durables	9.6	11.1	12.4	15.4	13.3
Services	8.0	8.6	8.0	8.8	9.6
Misc. (non-durables)	35.6	33.3	34.5	24.2	33.7
	100%	100%	100%	100%	100%
	(n=199)	(n=162)	(n=133)	(n=91)	(n=83)

B. Interrelationship of Ownership Type and Business Type

Trends affecting the growth of various business types and trends affecting the growth of chain stores are interrelated. Table 4-9 shows the percentage of establishments that are chains/subsidiaries for each of the five business types. This comparison is made among cities between the earliest and latest observation periods (1972 and 1979). Major findings are:

- While the Dun and Bradstreet data base underrepresents the number of chain stores, it is notable that the chains have the strongest positions in general merchandise and apparel stores, and generally weaker position in the other retail categories (durables and non-durables). Chain stores are weakest in the service businesses (laundries, hair/beauty, shoe repair, etc). The number of restaurants that are chain stores is particularly difficult to assess because of the omission from the Dun and Bradstreet data of branches in businesses that have centralized buying.

- There were proportional increases in chain stores over the 1972-1979 period in a majority (but not all) of the seven cities for all five business types.

C. Business Entry and Exit

The rate of businesses in the Dun and Bradstreet files entering and exiting each zone in each period of time is shown in Appendix Table 1. The entry and exit rates shown in these tables are another way of viewing changes in the mix of businesses; the profiles in Table 4-8 reflect the net rate of entry (or exit) from the study zones. Aside from supporting the findings previously presented in Section A, Appendix Table 1 indicates a rate of mobility (of entry and exit) among chain stores that is equal or only slightly greater than that of independent businesses.

D. Business Growth

While shifts in the mix of establishments downtown reflect entry and exit activity, business growth rates are a means of measuring change for existing businesses (i.e., those not entering or exiting the zone during a

TABLE 4-9. PERCENT OF STORES THAT ARE PART OF A CHAIN, BY LOCATION AND BUSINESS TYPE

	Gen. Merchandise & Apparel	Restaurants & Bars	Durables	Services	Miscellaneous Non-Durables
Boston CBD					
1972	20%	7%	9%	4%	8%
1979	26	12	20	7	15
Baltimore CBD					
1972	25	8	4	4	10
1979	25	11	8	5	8
Madison CBD					
1972	20	4	20	0	12
1979	20	5	18	18	2
Memphis CBD					
1972	46	10	17	0	14
1978	50	11	11	0	21
Portland CBD					
1972	24	7	14	3	8
1979	28	9	15	3	14
New Orleans CBD					
1972	26	4	8	0	6
1979	36	8	12	2	7
Trenton CBD					
1972	12	2	9	0	2
1979	3	0	24	0	4

given time period). The growth or decline of each business is here measured primarily through observing changes in its employment size. A growth in business employment size is assumed to reflect an increase in sales activity, although sales can also increase without any corresponding employment growth. The mean rate of annual growth per establishment is shown by business ownership type and store size in Table 4-10; the percentages of businesses growing and declining are shown in Appendix Table 2. Small sample sizes prevented accurate measurement of the mean growth rates for large independent businesses and chain stores in some zones. Nevertheless, several major findings emerge:

- o In both revitalization zones and comparison zones, the large independent stores consistently tended to show declines in employment size, while the small independent stores showed increases. (The decline among existing large independents was observed in all of the study cities except Memphis; the growth among existing small independents was observed in all of the study cities except Baltimore (Lexington Mall and Old Town Mall).

- o Small independent businesses consistently grew most in the revitalization districts in Boston and Madison, but had negative growth rates in Baltimore's Lexington Mall. Results in the other cites were more mixed.

- o While changes in the mix of businesses were observed following initiation of the revitalization projects, there was no evidence in any of the study cities that existing businesses in the revitalization districts grew at a higher rate after initiation of the revitalization projects, nor that they grew more than businesses elsewhere in the CBD. Impacts on sales may, however, exist despite no observed change in employment growth.

- o Measurement of business growth among the chain stores was often subject to small sample sizes. Nevertheless, there was no evidence that existing chain stores grew any faster in employment than existing small independent businesses.

4.6 Cross-Site Summary Regressions

While the tabulations of business growth, entry and exit rates showed varying trends among the sites, there are some common factors that affect these observed trends. To estimate the relationship between growth, entry and exit rates and various explanatory factors, data from all seven sities were combined for cross-site regressions.

TABLE 4-10(A)

MEAN RATE OF EMPLOYMENT GROWTH PER ESTABLISHMENT
(Percent Annualized)

Baltimore

	Small Store Independents	Large Store Independents	Chain Stores
Lexington Mall			
Dec. 72-Dec. 74	0.05	-5.60*	0.63*
Dec. 74-Dec. 77	-5.50	**	**
Dec. 77-Dec. 78	-2.00	**	**
Dec. 78-Dec. 79	-5.75*	**	**
Charles Center			
Dec. 72-Dec. 74	-1.87	**	-3.50*
Dec. 74-Dec. 77	2.70	**	-5.17*
Dec. 77-Dec. 78	**	**	**
Dec. 78-Dec. 79	**	**	**
Rest of CBD			
Dec. 72-Dec. 74	5.75	-1.13	0.23
Dec. 74-Dec. 77	3.48	-2.97	0.43
Dec. 77-Dec. 78	3.79	-1.50	-5.63
Dec. 78-Dec. 79	4.47	-2.07	0.00*
Old Town Mall			
Dec. 72-Dec. 74	2.76	**	**
Dec. 74-Dec. 77	-0.82	**	**
Dec. 77-Dec. 78	-0.79	**	**
Dec. 78-Dec. 79	-1.92	**	**

*--based on fewer than 10 observations.
**--not presented since there were fewer than 5 observations.

TABLE 4-10(B)

MEAN RATE OF EMPLOYMENT GROWTH PER ESTABLISHMENT
(Percent Annualized)

Boston

	Small Store Independents	Large Store Independents	Chain Stores
Downtown Crossing			
Dec. 72-Dec. 74	1.47	-4.07	0.00
Dec. 74-Dec. 77	6.24	-6.44*	-3.02
Dec. 77-Dec. 78	1.06	-3.70	-0.57
Dec. 78-Dec. 79	2.14	3.00*	0.00*
Rest of CBD (excl. Quincy Market)			
Dec. 72-Dec. 74	25.65	-0.53	15.57
Dec. 74-Dec. 77	4.81	-1.06	17.71
Dec. 77-Dec. 78	40.46	0.44	2.16
Dec. 78-Dec. 79	10.35	-1.64	0.00*
Back Bay (excl. Prudential Center)			
Dec. 72-Dec. 74	5.59	15.83	8.80
Dec. 74-Dec. 77	6.56	1.83	4.85
Dec. 77-Dec. 78	1.57	-2.50	8.88*
Dec. 78-Dec. 79	2.28	-3.00	-2.29*

*--based on fewer than 10 observations.
**--not presented since there were fewer than 5 observations.

TABLE 4-10(C)

MEAN RATE OF EMPLOYMENT GROWTH PER ESTABLISHMENT
(Percent Annualized)

Madison

	Small Store Independents	Large Store Independents	Chain Stores
State Street/Capitol Concourse			
Dec. 72-Dec. 74	9.42	-5.41	2.94
Dec. 74-Dec. 77	7.85	1.80	3.26*
Dec. 77-Dec. 78	5.08	-2.53	0.00*
Dec. 78-Dec. 79	3.38	-0.85	**
Rest of CBD			
Dec. 72-Dec. 74	-0.93	**	**
Dec. 74-Dec. 77	31.19	**	**
Dec. 77-Dec. 78	2.44	**	**
Dec. 78-Dec. 79	-2.40*	**	**
Outlying Shopping Center			
Dec. 72-Dec. 74	**	**	4.58*
Dec. 74-Dec. 77	1.13*	**	0.00*
Dec. 77-Dec. 78	8.20*	**	15.00*
Dec. 78-Dec. 79	**	**	**

*--based on fewer than 10 observations.
**--not presented since there were fewer than 5 observations.

TABLE 4-10(D)

MEAN RATE OF EMPLOYMENT GROWTH PER ESTABLISHMENT
(Percent Annualized)

Memphis

	Small Store Independents	Large Store Independents	Chain Stores
Mid-America Mall			
Dec. 72-Dec. 74	0.16	4.43	5.71
Dec. 74-Dec. 77	0.27	0.73	-6.03
Dec. 77-Dec. 78	-2.31	0.00*	0.00
Dec. 78-Dec. 79	5.21	11.60*	**
Rest of CBD			
Dec. 72-Dec. 74	45.82	2.79	-2.30
Dec. 74-Dec. 77	3.91	**	**
Dec. 77-Dec. 78	-0.30	**	**
Dec. 78-Dec. 79	4.94	**	**
Outlying Shopping Center			
Dec. 72-Dec. 74	5.84	**	0.50*
Dec. 74-Dec. 77	3.93	**	32.96*
Dec. 77-Dec. 78	-0.97	6.60*	0.0
Dec. 78-Dec. 79	18.00	12.00*	**

*--based on fewer than 10 observations.
**--not presented since there were fewer than 5 observations.

TABLE 4-10(E)

MEAN RATE OF EMPLOYMENT GROWTH PER ESTABLISHMENT
(Percent Annualized)

New Orleans

	Small Store Independents	Large Store Independents	Chain Stores
Canal Street-Primary			
Dec. 72-Dec. 74	88.10	**	**
Dec. 74-Dec. 77	2.27	**	**
Dec. 77-Dec. 78	0.00	**	**
Dec. 78-Dec. 79	0.00*	**	**
Canal Street-Secondary			
Dec. 72-Dec. 74	0.68	7.07*	0.45
Dec. 74-Dec. 77	8.57	2.72	-1.19
Dec. 77-Dec. 78	7.93	-1.43*	0.00
Dec. 78-Dec. 79	3.14	-14.29*	0.00*
Rest of CBD			
Dec. 72-Dec. 74	4.00	-2.73	18.65
Dec. 74-Dec. 77	3.78	2.36	275.00
Dec. 77-Dec. 78	-0.50	1.13	37.50
Dec. 78-Dec. 79	3.73	-2.38	**
French-Market			
Dec. 72-Dec. 74	0.79	**	**
Dec. 74-Dec. 77	0.60	**	**
Dec. 77-Dec. 78	0.00	**	**
Dec. 78-Dec. 79	0.00*	**	**

*--based on fewer than 10 observations.
**--not presented since there were fewer than 5 observations.

TABLE 4-10(F)

MEAN RATE OF EMPLOYMENT GROWTH PER ESTABLISHMENT
(Percent Annualized)

Portland

	Small Store Independents	Large Store Independents	Chain Stores
Portland Mall			
Dec. 72-Dec. 74	14.35	-2.90*	**
Dec. 74-Dec. 77	-1.41	**	**
Dec. 77-Dec. 78	0.33	**	**
Dec. 78-Dec. 79	-3.88	**	**
Rest of CBD			
Dec. 72-Dec. 74	5.10	1.27	2.26
Dec. 74-Dec. 77	10.22	-1.91	-0.79
Dec. 77-Dec. 78	9.88	-7.03	7.21
Dec. 78-Dec. 79	10.23	-5.82	-4.00
Lloyd Center			
Dec. 72-Dec. 74	10.05	**	33.58
Dec. 74-Dec. 77	6.64	0.91*	-1.90
Dec. 77-Dec. 78	24.81	-8.00*	-1.25*
Dec. 78-Dec. 79	-7.00	0.0)*	**

*--based on fewer than 10 observations.
**--not presented since there were fewer than 5 observations.

TABLE 4-10(G)

MEAN RATE OF EMPLOYMENT GROWTH PER ESTABLISHMENT
(Percent Annualized)

Trenton

	Small Store Independents	Large Store Independents	Chain Stores
Trenton Commons			
Dec. 72-Dec. 74	4.65	**	**
Dec. 74-Dec. 77	-0.13	**	**
Dec. 77-Dec. 78	6.67	**	**
Dec. 78-Dec. 79	0.00	**	**
Rest of CBD			
Dec. 72-Dec. 74	6.94	-8.70	**
Dec. 74-Dec. 77	2.02	-2.23*	**
Dec. 77-Dec. 78	-0.15	0.00*	**
Dec. 78-Dec. 79	-3.71	**	**

*--based on fewer than 10 observations.
**--not presented since there were fewer than 5 observations.

The dependent variables were: (1) the mean annual rate of employment growth per store, (2) the mean annual rate of new store entry and (3) and mean annual rate of store exit, for each combination of business type, size and ownership category in each of the nine revitalization zones (in the seven cities) in each of four time entervals. The categories of 9 zones, 4 time intervals, 5 business types, 2 store sizes and 2 ownership categories are listed in Table 4-11. These categories yield a possible 720 (9x4x5x2x2) observations; however, since some of the categories (e.g., large store, chain, services) did not exist in every zone, there were actually 496 observations.

Note that the observations were limited to trends within the revitalization zones, since these zones were subject to well-defined improvement programs initiated at specific points in time. The observations were defined as group means to permit entry and exit rates to be expressed as continuous rather than discrete, binary variables, and since it is not possible to define a binary variable for whether or not a store enters the zone when no information is available on stores that did not enter.

The variables in the regression are defined in Table 4-12. The independent variables identify the separate effects of ownership type, store size and business type on the observed business trends. Another set of independent variables measures effects of variation by city and time interval. As a means of generalizing these observed effects (rather than linking them to specific cities and years), they are measured in terms of strength of the local economy, role of the CBD in city-wide retail sales, and whether they occurred before or after initiation of the revitalization project improvements. The values of these values are presented in Table 4-13. It will be noted that local unemployment rates at all seven cities were highest during the recession around 1974. Retail sales in the CBD have been a declining proportion of area wide retail sales in all seven cities, but are still proportionally highest (among the study cities) in New Orleans, Madison and Boston.

TABLE 4-11

Construction of Regression Observations

All Combinations of:

Zone--Lexington Street (Baltimore); Old Town (Baltimore; Downtown Crossing (Boston); State Street/Capitol Concourse (Madison); Mid-America Mall (Memphis); Canal Street (New Orleans); French Market (New Orleans); Portland Mall (Portland); Trenton Commons (Trenton).

Time Interval--1972-1974; 1974-1977; 1977-1978; 1978-1979

Business Type--apparel & general merchandise; restaurants & bars; services; all other (durables and non-durables)

Store Size--small (0-19 employees); large (20+ employees)

Ownership Type--independent; chain/subsidiary

TABLE 4-12

Regression Variables

Dependent Variables

Mean Annual Rate of Employment Growth per Business (of businesses not entering or exiting)

Mean Annual Rate of New Store Entry (new stores/stores previously existing)

Mean Annual Rate of Store Exit (exiting stores/stores previously existing)

Independent Variables

Chain Store = 1 if chain or subsidiary; 0 otherwise

Large = 1 if store employment is 20+; 0 otherwise

Restaurant = 1 if restaurant or bar; 0 otherwise

Apparel = 1 if apparel or general merchandise; 0 otherwise

Service = 1 if consumer-oriented service business; 0 otherwise

After Revitalization = 1 if time interval (y) for city (x) is during or after revitalization project; 0 otherwise

Unemployment = rate of unemployment in city (x) at time interval (y) (a measure of strength of the local economy)

CBD Rate = sales in the CBD as a percentage of sales in the SMSA for city (x) at time interval (y) (a measure of CBD importance)

TABLE 4-13

Supplementary Data for the Regressions

		Local Unemployment Rate	CBD % of SMSA Retail Sales	Timing of Revitalization Project
Baltimore	1972-74	3.1%	4.6%	Before
	1974-77	7.8	3.7	During/After
	1977-78	6.3	2.8	After
	1978-79	6.6	2.6	After
Boston	1972-74	6.8	6.3	Before
	1974-77	8.7	5.7	Before
	1977-78	5.8	5.0	During
	1978-79	5.3	4.8	During/After
Madison	1972-74	3.6	7.7	Before
	1974-77	3.8	7.0	Before
	1977-78	3.7	6.4	During/After
	1978-79	3.6	6.2	During/After
Memphis	1972-74	3.2	5.0	Before
	1974-77	6.3	4.0	During
	1977-78	5.5	2.9	After
	1978-79	5.3	2.8	After
New Orleans	1972-74	6.0	15.0	Before
	1974-77	7.5	13.0	Before
	1977-78	7.0	10.5	During/After
	1978-79	6.0	10.2	During/After
Portland	1972-74	4.8	5.9	Before
	1974-77	8.7	4.9	Before
	1977-78	4.8	4.0	During/After
	1978-79	5.4	3.9	After
Trenton	1972-74	4.5	8.6	Before
	1974-77	7.6	5.9	During
	1977-78	5.3	3.2	After
	1978-79	5.7	3.1	After

The regression results are presented in Table 4-14. All of the regressions were statistically significant. The proportion of total variance explained (R^2) ranged from .10 to .20, meaning that the explanatory variables could not account for some of the wide jumps in observed dependent variable values. This wide variance in the dependent variable is largely due to the often small sample sizes for constructing the group observations. The R^2 values can also be interpreted as indicating that there are still substantial elements of business growth, entry and exit rate variation not explained by the explanatory variables. Still, the regression results did show that a number of variables did have significant impacts. Major findings were:

- o Large size stores were less dynamic than smaller stores. They tended to grow less, enter the study areas less often and exit the study areas less often than smaller stores.
- o Restaurants were most dynamic among the business types. They tended to grow faster, enter more frequently and exit more frequently than other types of stores. There was no significant difference in growth, entry or exit behavior between apparel/general merchandise, services and miscellaneous retail stores.
- o Chain stores tended to enter the study areas more frequently than independent businesses, although rates of growth and exit were not significantly different between chains and independents after controlling for other factors.
- o The revitalization projects had no significant impact on observed growth or exits of existing businesses, but did have a statistically significant impact on increasing the rates of new store entry into the study areas.
- o The strength of the local economy, as measured by the unemployment rate, also had a significant positive impact on the rate of new store entry into the study area, but no significant impact on observed growth or exits of existing businesses.
- o The relative importance of the CBD as a source of metropolitan-wide retail sales was a positive factor affecting growth of existing businesses in the study areas, but had no significant effect on entry and exit rates.

TABLE 4-14

Regression Results

Explanatory Variable	Employment Growth Rate (%)		Store Entry Rate (%)		Store Exit Rate (%)	
	Coeff	(t)	Coeff	(t)	Coeff	(t)
constant term	-0.60	(-0.08)	3.73	(1.52)	14.10	(4.35)**
chain store	1.66	(-0.43)	2.04	(1.58)*	1.21	(0.71)
large	-9.23	(-2.76)**	-3.79	(-3.43)**	-9.03	(-6.17)**
restaurant	10.26	(2.17)**	3.59	(2.29)**	7.28	(3.51)**
apparel	-2.89	(-0.75)	0.51	(0.40)	1.33	(0.78)
service	-0.45	(-0.06)	-1.06	(-0.45)	0.75	(0.24)
after revit.	-0.02	(-0.01)	6.79	(6.00)**	0.88	(0.59)
unemployment	-0.16	(-0.17)	-0.78	(-2.50)**	-0.40	(-0.97)
CBD role	1.13	(1.76)*	0.14	(0.64)	-0.21	(-0.73)
F Ratio	2.30		6.13		7.86	
(confidence)	(97.9%)		(99.9%)		(99.9%)	

*Significant at better than .10 level (90% confidence) for a one-tailed test
**Significant at better than .05 level (95% confidence) for a one-tailed test

4.7 Summary and Needs for Further Research

Observing changes over time in the businesses within seven central business districts (CBDs) has shown trends toward relative increases in small size stores and chain stores, at least in the medium and large cities. By observing differences in these trends between the revitalization project zone, the rest of the CBD and other retail districts in the central city, impacts of the revitalization projects have been inferred. In general, the analysis showed substantial variation in the impacts of the revitalization projects, ranging from dramatic increases in new business entry and major increases in chain stores to mere continuation of trends of business exit from the area. The case studies and summary regressions indicate that the variation in impacts is related to several factors: (a) differences in the extent of business support and central management activities in addition to the physical improvements; (b) health of the local metropolitan economy; and (c) relative importance of the central business district as a commercial center. The variation in project impacts makes it impossible to estimate the extent to which downtown revitalization projects have helped or hurt small businesses on a national basis.

The comparison of business trends in the revitalization zones with those in other nearby retail districts is also a limited comparison. The lack of any improvement in business growth or entry following a downtown revitalization project is not necessarily an indication that no impact exists. Rather, it may be that business disinvestment in the area would have accelerated had the revitalization project not been undertaken. A full understanding of relative changes to business entry/exit and growth within the downtown retail districts requires comparison of those trends with the changes occurring in suburban shopping centers, as well as with other shopping centers within the central city. The analyses of retail competition between downtowns and suburban shopping centers (in terms of business mix, employment and sales) is beyond the scope of this study but is an important subject for further research.

5. POLICIES TO SUPPORT SMALL BUSINESSES IN DOWNTOWN REVITALIZATION AREAS

5.1 Overview

The case study descriptions of downtown revitalization projects clearly show that downtown commercial revitalization efforts typically involve far more than just physical image and amenity improvements to the area. Other elements common to some or all of these commercial district revitalization programs include: (a) formation of a downtown organization to coordinate centralized promotion, management of activities, maintenance and growth in the central business district; (b) provisions to insure participation of businesses in the design, and funding of the downtown revitalization efforts; (c) availability of special financing for business improvement and building renovation, and facade design regulations to encourage these activities; and (d) special activities to assist small businesses and encourage small-scale entrepreneurship. The need for each of these programs elements and the existence of funding programs, organizations or regulations which address these issues are discussed in this Chapter.

5.2 Downtown Associations and Development Authorities for Centralized Promotion and Management of Downtown Activities

The establishment of a central management organization is an important aspect of many downtown revitalization projects. It represents an attempt to provide the small businesses downtown with collective promotion, participation in the upkeep of the area, and professional market development of the same type as is automatically provided for businesses in major suburban shopping centers. A study by Lord (1980) also concludes that important strategies for downtown retail revitalization are to form a merchants association to sponsor cooperative activities, increase advertising and promotion, and seek new retail merchants who can capture markets now "leaking" out of downtown.

The need for programs to encourage appropriate small firms to locate in downtown areas is a response to the fact that downtowns historically were incubators of business and economic growth, and the belief that continuation of that role is important in insuring the continued vitality of downtowns. Interviews with downtown associations showed that they often receive inquiries from new business prospects, and can play an important role in encouraging potential enterpreneurs and growing small firms to locate downtown. They could potentially even launch programs to actively seek such firms, and could also help new firms and existing small businesses to establish better working relationships with banks. (This issues is also discussed in Alexander, 1980).

The breadth of activities of downtown merchant associations vary widely. As discussed in the case studies, many are primarily involved in promotion activities. The State Street Council, serving downtown Chicago, is an example of one of the better established, sophisticated downtown associations. Activities it has performed behalf of the downtown merchants include: (a) compilation of data on which the direction of downtown marketing plans and promotions are based; (b) communication with the public and private sectors regarding land use decisions and transportation planning; (c) monitoring relevant local and state legislation; (d) assisting the city in areas such as maintenance of the transit mall; and (e) monitoring property valuation in the area.

In some cases, business leaders can take the lead in encouraging downtown economic development. Besides the State Street Council, another example is the Greater Wilmington (Delaware) Development Council. This organization was formed to coordinate development efforts with local government agencies, and assisted in the creation of Downtown Wilmington Inc., specifically to coordinate public/private development efforts in the downtown. Most existing downtown business associations are not equipped to deal with broad development strategies. They either focus on protecting the interests of the existing businesses or on assisting specific businesses interested in relocating in the area. This had led in many communities to the creation of nonprofit economic development corporations to foster cooperation among private sector participants, to give them the means to help maintain the viability of their community (McManis Associates, 1980).

Downtown Development Authorities are semi-public economic development agencies focused on central business district areas. They typically plan and adminster public improvements financed through property tax levies or special assessments, as well as by direct public and private funding. Downtown development authorities act to coordinate downtown land development projects, control activities and maintenance of the street and sidewalk space, and sponsor downtown promotional activities. They typically involve the close participation of high-level business executives, who often serve as directors. Among the case study cities discussed in Chapter 3, the Trenton Commons Commission, Center City Commission in Memphis, and Downtown Development District in New Orleans are all examples of downtown management organizations supported by special assessments or taxes. Charles Center-Inner Harbor Management, Inc., in Baltimore is yet another example of a quasi-public non-profit organization for coordination of marketing and development activities in the downtown area.

5.3 Funding Sources for Downtown Commercial Revitalization Projects

A. Federal Programs

Community Development Block Grants (CDBGs) are entitlements provided by the US Department of Housing and Urban Development (HUD) to local governments, which allocate funds according to their own priorities for development activities. Since 1974, these have been the largest and most reliable public source of funds which can be used for physical development. More recently (since 1977), CDBG funds have become available to Local Development Corporations and Small Business Investment Companies (discussed in Section 5.4), and can be used for grants, revolving loan funds, loan guarantees and technical assistance services to small firms. CDBG activities include programs for housing, residential neighborhood improvement, general public improvements and economic development. CDBG-funded activities in downtown commercial development include: (a) acquisition and preparation of property through demolition, clearance, public works and infrastructure improvements; (b) technical assistance to small businesses; (c) improvements to streets, sidewalks and lighting; (d) pedestrian malls; (e) storefront rehabilitiation; and (f) planning studies.

In terms of economic development, the CDBG program's impact is diluted by the fact that its funds are usually spread over a wide variety of uses, including also housing, job training and public services. The program has recently been criticized for the widespread use of the funds for a variety of public services whose relationships to revitalization and urban development are questionable (Comptroller General, 1981). Factors affecting the usage of CDBG funds by local governments also include city charter restrictions, program coordination by the city, size of the city bureaucracy, the relative importance of CBBG as a source of funds, degree of experience in federal programs and local capacity to use the funds (US Department of HUD, 1979).

In general, downtown revitalization projects usually do not depend on CDBG funds. Among the case study reports, the parking garages related to The Portland Mall project were financed in part by CDBG. Trenton Commons and Baltimore's Lexington Mall, both case studies, and Minneapolis' Nicollet Mall are examples of project funded in part by HUD's categorial community development grants, which were predecessors of CDBG. (The Trenton project was supported by an Open Space grant and the Minneapolis project by an Urban Beautification grant).[1] Since the block grant funds have historically emphasized housing and neighborhood programs, the National Council for Urban Economic Development (1980) has suggested that a separate "Economic Development Block Grant" program be set up to support activities relating to commercial and industrial development.

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[1] Refer to part 4 of each of the case studies in Chapter 3 for more details on the financing of those revitalization projects.

Urban Development Action Grants (UDAGs), initiated in 1977, are used by HUD to fund specific projects for commercial, industrial or residential development in "distressed" areas (where distressed is based on poverty, unemployment, and population decline). Funds are limited to physical development activities, including land acquisition, clearance and relocation, rehabilitation, new construction, public works and developer improvement loans. The major thrust of the program is to provide seed money to leverage private investments for urban economic developments, and private sources must first commit support to an action grant project. In fact, the average UDAG-funded project includes private sector investments of approximately six times the UDAG amount. UDAG program funds have been divided almost equally among industrial projects, commercial projects and neighborhood projects.

UDAG-supported commercial projects typically include one or more of the following: a civic center or convention center, a hotel, a downtown shopping center, a pedestrian mall, a pedestrian street crossover, street improvements and parking facilities. These improvements are intended to attract commitments for reinvestment in retail facilities that have otherwise fallen below the minimum standards for successful merchandising. The projects such as downtown shopping center and mixed use developments are designed to open up new retailing activities downtown, although the extent to which small businesses are able to move into these centers can be subject to the same factors which favor chain stores in major shopping centers (see Chapter 2). Activity generated by projects such as civic centers and hotels can have positive spill-over effects on expanding existing retailing activities, and improvements in streets, pedestrian spaces and parking facilities can help encourage further upgrading of the existing retailing facilities. Among the case study cities, downtown Madison's Capitol Centre project and downtown Boston's Lafayette Place are both examples of UDAG-supported mixed use projects. While the UDAG program has been best known for directly funding physical development projects, program funds can also be used as "seed money" for new and existing businesses to renovate buildings and construct new facilities. Forms of UDAG seed money have included: (a) establishment of a revolving loan program for downtown development through a business development corporation, (b) subsidization of interest rates of local banks which have committed funds to the downtown revitalization program, and (c) provision of a low interest loan pool for new construction, building rehabilitation and downtown improvements.

UDAG projects can be initiated in a wide variety of ways. A survey of UDAG-supported commercial projects found that 30 percent of the projects were initiated by a city department; 35 percent by an urban removal agency, non-profit organization or other local commission or tak force; and 24 percent by a private developer or bank (U.S. Department of HUD 1979) The survey also found that commercial UDAG projects are usually accompanied by other economic incentives offered to attract developers, such as: tax abatements (21 percent), low interest loans (33 percent), interest subsidies (39 percent), loan guarantees (9 percent), parking (54 percent) and public improvements (61 percent). A full 95 percent of the private funds were not otherwise subsidized, although those that had been subsidized were almost always supported by EDA.

Department of Transportation Programs are another major source of funds for downtown revitalization. As CDBG funds often went to neighborhood and residential programs and UDAG funds often went to new development projects, Department of Transportation programs have become increasingly important as funding sources for downtown area physical improvements. There are four major programs of the Urban Mass Transportation Administration (UMTA) and the Federal Highway Administration (FHWA) which are relevant for funding downtown revitalization projects:

UMTA Section 3 "Mass Transportation Capital Improvement Grants"--UMTA makes discretionary grants to states and local public agencies to finance capital investments related to transportation improvements. In the recent past, Section 3 funds have been used for construction of transit malls, special bus lanes, new sidewalks, but shelters, transit priority traffic signals, and transit terminals. Among the case study projects, the State Street Mall/Capitol Concourse in Madison, the Portland (OR) Mall and

Downtown Crossing in Boston all received financial support in the form of UMTA Capital Grants.

UMTA Urban Initiatives--This program offers special grants for transit-related projects which demonstrate a significant degree of impact on improving the physical and economic environment in urban areas. Grants are available to transit authorities, local governments, state agencies and quasi-public development corporations (as local government pass-throughs). Eligible projects are restricted to intermodal transfer facilities, transit malls and joint development projects (i.e., land development projects integrated with transit facilities or transit malls).

UMTA Section 6 "Service and Methods Demonstration Grants"--This demonstration program is oriented toward funding innovative transportation-related programs. Funds have been used to finance pedestrian and transit mall operating expenses and certain categories of mall-related capital costs. Among the case study projects, Boston's Downtown Crossing project included Section 6 demonstration funds for police enforcement, promotions, maintenance and other mall-related operations. In Memphis, the demonstration program funded a new shuttle bus service between downtown (The Mid-American Mall) and a major medical activity center.

FHWA "Federal Aid Urban Systems" (FAUS)--While the above-mentioned UMTA programs are restricted to transit-related improvements, FAUS funding assistance is provided for a wide variety of projects that relate to traffic improvements or traffic restrictions. These include pedestrian malls, as well as sidewalk and median strip improvements, roadway improvements, signs, pedestrian shelters and other transportation-related projects. Portions of Boston's Downtown Crossing project were funded by this program.

Economic Development Administration (EDA)

While current funding levels are substantially reduced, in the past EDA was an important source of loans and grants to local governments, and economic development organizations. The Title 1 "Public Works" Program provided grants (sometimes matched with CDBG funds) for land and building acquisition and renovation, public works (road and utility) projects, and other projects such as pedestrian malls which serve to improve the appearance and efficiency of run-down, congested commercial areas. Among the case study projects, the Canal Street improvements in New Orleans were funded in part by EDA. The Title IX "Economic Development and Adjustment Assistance" program, limited to areas experiencing "long term deterioration" or "severe and sudden" economic changes, provided grants to local governments for improvements to public facilities and to local development corporations for setting up revolving loan funds. Most of the projects it funded were, however, industrial projects rather than downtown revitalization.

B. Local Sources

Special Assessment Districts have become popular means of local funding for downtown revitalization projects such as pedestrian malls, transit malls and sidewalk improvements. Special assessments are special tax levies for a designated area, the revenues of which are used to finance public services and development activities within that area, or to retire bonds issued to finance those activities. Special assessments are more flexible than regular property taxes, since they may be one time charges for capital improvements or continuing charges for operating costs. They may be assessed on either an ad valorem basis (levied according to structural footage, revenues received or property value changes) or on a negotiated special benefit basis (usually levied according to store frontage or square footage). Among the case study cities, construction and ongoing maintenance of the downtown revitalization projects in Madison, Memphis and Trenton have been supported by special assessments, as has maintenance of the Canal Street area in New Orleans. Downtown New Orleans is an example of an wide-area ad valorem property tax district, while Madison is an example of special assessments structured by distance from the improved streets.

Tax Increment Financing became popular starting in the late 1960s when federal funds for urban projects became scarce. Within a tax increment district, the tax base is frozen during a period of years and each regular taxing jurisdiction continues to receive its percentage of the taxes collected based on the frozen level of assessed valuation. The projected increment in tax revenue due to development-related increases in property valuation is then used to guarantee repayment of debts by the redevelopment agency. This financing mechanism is used to cover land acquisition, public improvements and public facilities. After the project-related debts are paid off, the increased tax increment reverts to general revenues. Among the case study projects, tax increment financing was used in Portland as one of the tools for financing the shopper parking garages near the Portland Mall.

Tax Exempt Financing is available for construction or renovation projects through the issuance of revenue bonds administered through the state of local government. Securities, exempt from federal income tax have higher effective yields than those for which earnings are taxed. Financing secured through this means can thus be provided at several percentage points below market interest rates.

Industrial Revenue Bonds (IRBs) and Industrial Development Bonds (IDBs) are federally tax-exempt bonds issued by a state or local government agency on behalf of a private firm for financing commercial or industrial development activities. The use of IRBs and IDBs as a source of funding for expansion, construction and renovation activities for small businesses is discussed in Section 5.4. Among the case studies, the French Market in New Orleans and the parking garages in Portland were both financed by revenue bonds, and further capital improvements to the Canal Street area in New Orleans are also expected to be funded from such a source.

5.4 Financing Long-Term Growth and Short-Term Needs of Small Commercial Businesses

A. Financing Needs of Small Businesses

Starting a new business venture depends upon long-term capital financing, while medium-term capital is needed by firms to finance physical improvements and expansion, and expansion in marketing, advertising and staff. Small businesses are often unable to obtain long- or medium-term capital, as commercial banks are oriented toward short-term business loans and institutions such as insurance companies usually invest only in larger projects. Local economic development corporations, using federal and state grants, loans and loan guarantees (as discussed later), thus play a major role in providing capital for financing small business expansion.

Short-term working capital is usually borrowed for a few months to one year to finance inventories and account receivables and to support seasonal expanded operations for small businesses (e.g., to build up extra inventories for the Christmas season). While federal programs provide some medium and long-term capital for business expansion and renovation, far less assistance is available for working capital. In many states, local economic development agencies avoid involvement in short-term loans, feeling that commercial banks and finance companies offer sufficient loan money. For the retail and service sectors, however, debt-equity ratios tend to be much lower than for firms in manufacturing, distribution and construction, and so short-term financing becomes relatively more important. Of course too, it is primarily small businesses which get squeezed out of the market or are forced to pay debilitating interest rates during periods of tight credit (National Council for Urban Economic Development, 1977).

B. Problems in Financing Small Businesses

A major problem in small business development, thus, is not the cost of capital but rather the availability of capital for small business financing. Daniels et al. (1981) note that investors and lenders tend to avoid providing funds for the development, expansion or improvement of small businesses because of four major reasons: risk aversion, high costs of processing small loans, lender prejudice and government regulation.

- risk aversion--Although small businesses as a class are profititable, they are individually risky. Lenders could respond to this by raising interest rates to compensate for the higher risk or creating pooling mechanisms to average out the high variability of risk. In fact, they often find it easier to just ignore small businesses.

- loan processing costs--All loans entail costs of processing. These include information costs of evaluating the soundness of the proposal and the credit worthiness of the borrower, and for following the management to the enterprise and its business decisions. It also includes fixed tranaction costs of negotiations and legal accounting and printing fees. The high information and transaction costs relative to loan income make small loans less profitable.

- prejudice--Small business persons are less apt than larger corporations to have established track records and credit ratings. Lenders naturally find it easier to trust familar corporate names than individuals they do not know.

- government regulations--Regulations on the potential uses of a lending organization's funds have the effect of limiting the availability of funds, especially for purposes such as small business improvement and expansion.

C. Sources of Financing for Small Businesses

One means of obtaining capital for business expansion in economically distressed areas are the community economic development organizations, which are non profit local corporations set up by the local or state government, or private sector. Privately-financed business development corporations, development credit corporations and economic development corporations also play a major role. Using private bank funds together with federal and state funds and loan guarantees, such organizations can pool risks and accept colateral that is typically unacceptable to conventional leaders, such as personal notes on insurance policies. The business development corporations can also participate in or help arrange deals with financial institutions, and provide long term investment financing. Since their objective is the business development of an area, they can be less concerned with an immediate return on all their investments. The primary focus of the economic development corporations, however, has usually been on small manufacturing businesses rather than retail or service firms.

A variety of federal sources have provided loans, loan guarantees and funds for loan pools for business expansion and renovation in commercial revitalization districts. These include:

- HUD Community Development Block Grants--discussed in Section 5.3, includes property improvement loans
- HUD Urban Development Action Grants--discussed in Section 5.3, includes grants, loan guarantees and funding for revolving loan funds
- HUD Section 108 Loan Guarantee Program--guarantees the notes of local governments receiving CDBG grants, for purposes of acquiring and rehabilitating property. The program has been expanded on a demonstration basis in 12 cities to support local private sector initiatives to finance expanding small and medium businesses to create new jobs.
- HUD Section 312 Rehabilitation Loan Program--funds commercial loans, although the program has been mostly used for residential purposes. The Old Town commercial revitalization program in Baltimore, discussed in the case studies, is an example of a program utilizing HUD 312 loans for commercial district renovations.
- EDA Title 1 (Public Works) and Title IX (Economic Development and Adjustment Assistance)--previously discussed; in the past also provided grants to fund the public capitalization of Small Business Investment Companies
- SBA 7(a) Business Loans and Loan Guarantees--available to small businesses previously denied credit by local financial institutions. In contrast to most other loan programs, SBA 7(a) funds working capital needs and inventory as well as debt consolidation, property acquisition, construction, equipment, rehab and lease hold improvements. Additional economic opportunity loans have been available for businesses owned by minority and low-income persons. SBA Guaranteed Loans are administered through local banks.
- SBA 301 Small Business Investment Corporations, SBA 502 Local Development Companies and SBA 503 Debentures are discussed in the pages following.

- In the past, the Community Service Administration, through its Community Development Corporations, also funded venture capital and technical assistance for business development in local communities, including loans and loan guarantees for high risk investments.

Most of the loans programs are administered through city-wide Economic Development Corporations, neighborhood Local Development Companies or specialized Small Business Investment Companies--each of which are described in the pages following. Each can administer Revolving Loan Funds, which are pools of money capitalized from payments received on outstanding loans, and used in turn to finance further development projects (including construction, renovation and expansion) for new businesses. They are sometimes started by seed money grants from private financial institutions, but more frequently by various forms of non-profit business development corporations, using CDBG or other federal money. They can also be set up to operate directly through local banks.

City Wide Economic Development Corporations (EDCs)--are quasi-public/private non-profit organizations, usually operating under contract to the city. Unlike city agencies, they can become directly involved in business ventures and economic development activities such as land-banking, land write-downs (reduced price land sales), building improvements, and facilty maintenance, plus administration of industrial revenue bonds, revolving loan funds, public grant packaging to leverage private capital on development projects, and technical assistance in the areas of marketing and management. While city governments are often prohibited from using local public funds for direct business loans or grants, autonomous economic development corporations receiving local funds can usually engage in such activities. EDCs serve to package loans combining federally-available resources (e.g., from HUD's CDBG and UDAG programs and in the past from EDA and CETA) with assistance funds directed to the private sector from privately-owned Local Development Corporation (CDCs) and Small Business Investment Companies (SBICs)--both described below.

Local Development Companies (LDCs) are profit or non-profit corporations certified to receive long-term loans from SBA under its 502 program, and then lend the money to small businesses for purposes of investing in land acquisition, new construction, renovation and equipment purchases (but not for working capital, debt consolidation or refinancing). Local Development Companies under the SBA 503 program can also raise long-term loan funds for small businesses by issuing SBA-guaranteed debentures as an alternative to Industrial Revenue Bonds. (Processing costs of Section 503 financing still make the program efficient only for projects of $40,000 or more, and so the program has been primarily used for manufacturing and wholesale distribution firms with large fixed-asset investments rather than for small retailers.) Many local governments assist in the creation of LDCs, as a means of increasing investment and jobs in the central city area, starting with efforts to retain existing businesses and revitalize the downtown. LDCs are usually also responsible for providing marketing, management and technical assistance to the interested businesses, and for economic development planning. (In the past, EDA 301 grant supported such activities). Among the case study projects, the availability of SBA 502 funds for building rehabilitation was on integral part of the Old Town Mall project in Baltimore. The Trenton Business Assistance Corporation is another examples of an LDC.

Small Business Investment Companies (SBICs) and Minority Enterprise Small Business Investment Companies (MESBICs) are profit or non-profit corporations which use SBA funds (often in conjunction with CDBG, UDAG and EDA program funds) to channel equity/venture capital and loan money to small businesses for expansion, modernization and growth. While SBICs can finance any kind of small enterprise, most specialize in industrial, manufacturing or producer services, although there are some specializing in retail stores.

Industrial Revenue Bonds (IRBs) and Industrial Development Bonds (IDBs) are federally tax-exempt bonds issued through the state or local government on behalf of a commercial or industrial firm to finance construction, renovation or other development activities. The facility built with the bond proceeds is then sold or leased to the private firm for an amount sufficient to cover the interest and amortization of the bonds. The terms IRB and IDB are often used in interchangeably, although technically IRBs are backed solely by the revenues from the project itself, while IDBs are backed by the full credit of the issuing government agency. The high fixed cost for legal and bank fees involved in issuing an IRB or IDB has excluded individual small businesses from this form of financing, as the minimum project level for IRBs/IDBs is considered to be around $250,000. Special programs to allow small commercial businesses to benfit from such tax-exempt financing have existed in several states, ranging from statewide program such as the Commercial Area Revitalization District (CARD) program in Massachusetts to local program such as that provided by City of Milwaukee in conjunction with a leading local bank. Policies such as "unbrella financing" would make it universally possible to combine bond financing.

In fact, IRBs/IDBs may be disappearing. The demand for purchasing these instruments has weakened substantially in recent years due to a saturated market, rising interest rates, the introduction of new forms of tax-exempt savings and reduced demand among banks for tax-exempt income shelters (either because of falling bank profits or because they have already financed up to their tax-exempt limit). Terms for IRBs, once around 30-40 years, have more frequently become in the 5-10 year range as investors look for shorter-term commitments. IRBs and IDBs have also been critized for subsidizing financing costs of some firms which would be able to obtain the necessary capital from other sources, although at a higher cost. Recent proposals have called for eliminating IRBs and IDBs or limiting these instruments to large industrial projects in distressed areas.

D. Bank Policies for Expanding Capital for Small Businesses

There are a large number of current suggestions for increasing the flow of capital available for small business investment, including development of regulations to allow special high risk/high reward portfolios by banks, changing bank examination regulations, relying upon Community Reinvestment

Act Standards, full loan guarantees, interest rate guarantees, guarantee vouchers, sales/royalty payments for equity participation, general liability loan guarantees, loss reserve programs, publicly-funded Small Business Investment Corporations and creation of Business and Industrial Development Corporations (Corporation of Enterprise Development, 1981).

Many of these proposals require changes in banking operations and regulations rather than any new federal funds. For example, small business owners are often used to risking personal assets--many small businesses are financed partially by personal savings--and so it appears that some small retail and service business operations might be willing to absorb part of the extra cost or some of the extra risk inherent in loans to small businesses. The concept of general liability loan guarantees involves the borrower putting up some personal assets as well as business assets as collateral in case of default. If the borrower is fairly certain of the return and willing to take the risk, then the lending institution has a strong indication of borrower confidence and an insurance against the borrower "milking" the enterprise before defaulting. This type of policy does penalize small business borrowers, but could make loan money available where it now is not available at any price. Another drastic alternative, which involves the borrower paying part of the extra costs of risk, is the loss reserve program. Already instituted in California, this type of program authorizes bank loans to small businesses with the aid of a "loss reserve" fund created at each bank. Money for the fund is generated on the basis of a loss reserve rate for each loan, the cost of which is split equally among the borrower, the lender and the government (Hansen, 1981). Linked deposit plans are yet another means of encouraging banks to provide loan money for development. Linked deposit plans are programs where state government funds are selectively deposited in commercial banks to leverage loans that are deemed to be in the public interest. The Illinois linked deposit plan deposits state funds in banks partially on the basis of the extent to which they loan money for categories such as hospitals, purchase of municipal banks, minority businesses and urban economic development (National Council for Urban Economic Development, 1977).

5.5 Technical Assistance for Businesses and Communities

Dun and Bradstreet estimates that as many as 95 percent of all business failures are due to poor management. Lack of management expertise can be more seriously debilitating to a small enterprise than the lack of availability of capital. Retail or service businesses can fail due to lack of a master plan including: (a) identification of a defined target market; (b) a marketing strategy in terms of price, quality, services and differentiation from competitors; (c) business planning in terms of an analysis of expected future sales, expenses and profits; and (d) daily operation issues such as accounting, personnel procedures, purchasing and merchandising. The case studies of experiences in cities such as Memphis suggest that local small businesses may not always take advantage of new markets made available by new downtown office construction and the public investments in physical improvements to the retail district.

SBA projects for management assistance have included:

- an Office of Managment Assistance at each SBA district office, to counsel small business owners
- Service Corps of Retired Executives/Active Corps of Executives (SCORE/ACE)--volunteers with expertise who are matched by SBA to assist small business owners needing advice; and
- Small Business Institutes at universities, under which students and faculty members offer on-site counseling to small business owners.

The Office of Minority Business Enterprise (OMBE) in the Department of Commerce has also funded local counseling organizations for economically and socially disadvantaged business persons setting up or operating a business.

Other sources of counseling services include university-based Small Business Development Centers (such as those at the University of Georgia and Dartmount's Tuck School of Management), statewide information services (e.g., Massachusetts Business Information Center Network, and George Business Information Services), and regional suall businesses organizations (e.g., Independent Business Association of Wisconsin and the Small Business

Association of New England.) In general, the scope of all these programs remain limited and spread among the broad variety of manufacturing, warehousing services, wholesaling and retailing types of operations in rural as well as urban settings.

The availability of technical/management assistance focusing on downtown or inner city commercial activity varies greatly from locality to locality and state to state. Community economic development organizations and some statewide organizations (such as the Massachusetts Community Economic Development Assistance Corp.) play important roles in encouraging enterpreneurship not only through activities such as loan packaging, but also by offering support services and counseling in project planning, marketing, accounting, cash management, and financing strategy. Many of the local and state programs performing these types of services, however, were in the past dependent on now non-existent CETA-funding. Community development organizations are also often limited to low-income constituencies rather than small businesses in general.

In many cases there is a state Department of Economic Development, Community Affairs, or similar title which assists small businesses in central cities with organization and financing as well as assisting those communities in local economic development programs and financing techniques. The Georgia Downtown Development Association (GDDA), formed in 1977, is an example of yet another type of program, a quasi-public statewide organization involved specifically in downtown development. It is staffed by the State Department of Community Affairs but is an independent organizations whose members include local governments, educational institutionals, individuals, corporations and non-profit groups. GDDA functions as a public/private information agency rather than an implementation agency. It sponsors activities such as development manuals, conferences and technical assistance to cities on establishing business development programs.

At a more local level, another example of a public/private cooperation in business counseling is the Memphis Small Business Assistance Program, althought it does not focus exclusively on urban commercial enterprises. The program is operated out of the Memphis and Shelby County Economic Development Bureau, although it was organized by Commitment Memphis, a voluntary group of young business and professional leaders. It provides volunteer assistance to persons starting or already operating small businesses.

One suggestion for strengthening the small business sector in downtown areas is to organize small business management centers in cities accross the county, organized as resource centers and clearinghouses for information and assistance. These could be developed from a consortium of private interests around existing business organizations, including regional and local associations already involved in business counseling (such as those previously described), plus urban commercial-oriented organizations such as chambers of commerce and downtown associations.

5.6 Other Policies and Programs Affecting the Competitive Environment for Small Businesses

A. Policies to Equalize the Chances for Small Businesses to Locate in New Shopping Developments

New public and private investments in downtown retail districts, particularly of the type funded by the UDAG program, have in the past and will continue in the future to include the development of new shopping centers. Some of these shopping facilities are oriented toward specialty retailing, where small businesses are well represented, but the larger shopping development projects are usually oriented toward apparel and general merchandise, areas where chain stores have strong positions. To date, little federal attention has been given to the types of businesses locating in and benefitting from these development projects, or the factors determining these outcomes. Chain stores and franchises have several strong advantages which cause them rather than small businesses to be sought out to fill the new centers. These are: (1) their demonstrated market appeal,

(2) their proven credit in paying the rent, and (3) the fact that they can be invited to open a store unit in the center through a single phone call to the central office. The first of these factors cannot be easily addressed, but public efforts can be taken to equalize the position of small businesses with respect to the other two factors.

The need to obtain tenants with high credit ratings is usually a requirement of the private financing organization (often an insurance company) underwriting the major share of the shopping center construction costs. As a result, small businesses interested in locating in new shopping centers (whether downtown or not downtown) report that they can face square footage rents which are triple the rates offered to chain stores, plus the requirement that they personally guarantee the rent for 10 years. The rent guarantee requirement can be a major obstacle for small businesses, and they may often be unaware of the existence of companies which will guarantee leases (at a cost). SBA in the past did have a lease guarantee program, but it was discontinued, due to a high loss rate resulting from difficulties in properly screening the market potential of the locations and their appropriateness for the applicant businesses. The need for mechanisms to better equalize rents and services to guarantee rents still exists.

The existence of a central office for chain stores and franchise makes it much easier for a developer to locate chain or franchise stores to fill a shopping facility then it is to seek out appropriate small firms. In fact, until recently small independent retailers were at an additional disadvantage becuase their entry into some new commercial development centers was restricted by agreements between developers and the larger chains and department stores. Litigation based on anti-trust legislation has, however, successfully challenged this practice. The increased difficulty for developers to find appropriate independent merchants still remains a handicap for small businesses, and suggests the usefulness of some form of local listing or placement service for independent retail merchants interested in expanding into new store locations.

B. Taxes

Small businesses often need to rely on retained earnings for expansion and development. Tax policies thus can have a major effect on the cash flow of these businesses. Small independent retail businesses have complained that they are particularly hurt by income taxes because their incomes are subject to greater fluctuations than those of national chain firms, which can offset windfall incomes at some of their stores with losses at other sites. High downtown property taxes are another complaint of small retail and service businesses, who see special property tax abatements often reserved for large-scale development projects.

C. Policies Toward Street Vendors

Street vendors represent another form of small enterpreneurs, whose existence is often encouraged by the change in pedestrian space accompanying pedestrian and transit mall projects. In every city, at least some of the small businesses object to street vendors, viewing them as parasites who can take advantage of the revitalization project improvements and compete with existing stores without paying the sort of rents, taxes and special assessments that the existing stores do. In some downtowns, such as Boston's Downtown Crossing, street vendors are prohibited. In many other downtowns, ranging from Chicago to Madison (WI) to Memphis, street vendors are encouraged for the color and additional activity they are seen as generated. In each of these downtowns, the downtown merchants association endorses the concept of vendors on their mall, subject to strict controls. Vendors are typically subject to licensing, permits restricting the locations and numbers of vending operations, and restrictions on the types of merchandise or food sold. The regulations in Madison, for example, restrict street vendors to sales of food or handcrafted merchandise made by members of the vendor's own family. The restriction on type of merchandise has been sometimes difficult to enforce, but is felt to be necessary to minimize competition with existing businesses selling items such as clothing, jewelry and art. With controls over the type of goods sold and appropriate pricing for use of the selling space, street vendors selling handcrafted merchandise can offer high quality products and could potentially grow into permanent stores as occurred with some of the pushcart vendors at Boston's Quincy Market (see Chapter 2). The provision of permanent vendor kiosks as exist in the mall in Boulder, CO could encourage businesses which can be larger and more permanent than vending from pushcarts but smaller scale than normal stores.

5.7 Summary and Conclusions

- Physical improvements to public spaces, designed to make the areas more attractive to shoppers and to businesses, are usually a major element of programs for the revitalization of existing downtown retail districts. Both the US Department of Housing and Urban Development and the US Department of Transportation are important sources of funding for these types of projects, although the projects often also rely upon special assessments on area businesses as a source of funding. The location of public buildings downtown and the provision of new parking facilities are common to many downtown revitalization programs.

- The coordination of major new private investment is supported by a variety of loan programs from several different sources, plus the Urban Development Action Grant program for major development projects. The need for greater small business involvement in UDAG-supported retail developments is one concern of existing small retail businesses. In general, there is concern that the struggle of small businesses to preserve their independence and continuity can be made more difficult by urban revitalization policies which discriminate against the existing store owner in the drive to attract new businesses into the area.

- Downtown associations to actively promote shopping in the central business district and to organize special activities there are important for providing small downtown businesses with some of the support mechanisms long available to suburban shopping centers. The existence of such organizations are new to many downtown areas and are still nonexist in some cities. The provision of special demonstration funds by DOT to support the formation of a downtown association in Boston demonstrates recognition that ongoing activities and operations can be as important to the success of a downtown revitalization effort as the physical improvements. Effort is needed to continue the growth of such activities in other downtowns.

- Financial support for operations and expansion of existing businesses comes from several different federal programs, and is funnelled through a variety of types of downtown authorities, statewide business development corporations, citywide economic development corporations, local development companies and small business investment companies, in addition to local banks and SBA offices. Small businesses can be unaware of the range of programs that exist and of the various forms of local business development corporations present. Ultimately, however, retail and service businesses tend to have lower needs for equity investment than other types of small businesses. Working capital for operations and inventory are particularly critical needs for small retail businesses, and there is far less availability of loan funds for those needs.

- Counseling services for financing, expansion planning and management are an important need for small businesses. The existence of current counseling programs varies greatly from site to site, however.

- The role of local banks in providing loan funds for business expansion and improvements in downtowns varies greatly from city to city. Changes in the form of loans made and state incentive policies could help increase the availability of bank funds for these purposes.

- Independent businesses inherently face disadvantages relative to chain stores in areas of credit, taxes and placement in new shopping developments. Rent guarantees, tax breaks and shopping center placement services for independent retailers could help equalize these differences.

- The widespread growth of downtown street malls allows substantial opportunities for new enterpreneurship in the form of street vendors and kiosk operations, although assistance is necessary to help local areas define guidelines regulating the types of operations allowed and the appropriate fee levels, to minimize unfair competition to existing stores.

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APPENDIX TABLE 1 (A)

Number of Establishments Entering and Exiting

by Ownership Type

Baltimore

	Independent				Chain/Subsidiary			
	Entering per Year		Exiting per Year		Entering per Year		Exiting per Year	
	#	(%)	#	(%)	#	(%)	#	(%)
Lexington Mall								
Dec. 72-Dec. 74	2.0	(11)	1.5	(8)	0.5	(6)	0.5	(6)
Dec. 74-Dec. 77	2.0	(11)	2.7	(15)	0.7	(8)	1.0	(11)
Dec. 77-Dec. 78	2	(11)	4	(22)	1	(12)	3	(38)
Dec. 78-Dec. 79	3	(21)	2	(14)	2	(33)	1	(17)
Charles Center								
Dec. 72-Dec. 74	6.0	(35)	2.0	(12)	2.5	(42)	0.5	(8)
Dec. 74-Dec. 77	4.0	(18)	4.7	(21)	0.7	(7)	1.3	(13)
Dec. 77-Dec. 78	3	(14)	8	(38)	0	(0)	3	(43)
Dec. 78-Dec. 79	6	(30)	7	(35)	2	(50)	0	(0)
Rest of CBD								
Dec. 72-Dec. 74	79.0	(11)	80.5	(11)	11.0	(17)	3.0	(5)
Dec. 74-Dec. 77	66.0	(9)	118.7	(16)	9.3	(2)	11.7	(16)
Dec. 77-Dec. 78	76	(12)	83	(14)	9	(13)	23	(32)
Dec. 78-Dec. 79	96	(15)	100	(16)	19	(33)	9	(16)
Old Town Mall								
Dec. 72-Dec. 74	2.5	(5)	6.5	(14)	0.0	(0)	0.0	(0)
Dec. 74-Dec. 77	2.0	(5)	7.3	(18)	0.7	(23)	1.0	(33)
Dec. 77-Dec. 78	1	(4)	0	(0)	0	(0)	0	(0)
Dec. 78-Dec. 79	3	(9)	0	(0)	0	(0)	0	(0)

APPENDIX TABLE 1 (B)

Number of Establishments Entering and Exiting

by Ownership Type

Boston

	Independent				Chain/Subsidiary			
	Entering per Year		Exiting per Year		Entering per Year		Exiting per Year	
	#	(%)	#	(%)	#	(%)	#	(%)
Downtown Crossing								
Dec. 72-Dec. 74	17.0	(8)	15.0	(7)	6.5	(24)	0.5	(2)
Dec. 74-Dec. 77	16.0	(8)	25.3	(12)	6.0	(15)	6.3	(16)
Dec. 77-Dec. 78	16	(8)	23	(12)	2	(5)	4	(11)
Dec. 78-Dec. 79	15	(8)	40	(21)	2	(6)	6	(14)
Rest of CBD (excl. Quincy Market								
Dec. 72-Dec. 74	71.0	(12)	53.0	(9)	10.5	(18)	4.5	(8)
Dec. 74-Dec. 77	86.3	(14)	95.0	(15)	13.7	(20)	9.7	(14)
Dec. 77-Dec. 78	56	(9)	74	(12)	25	(30)	9	(11)
Dec. 78-Dec, 79	59	(10)	96	(16)	21	(21)	21	(21)
Back Bay (excl. Prudential Center								
Dec. 72-Dec. 74	24.0	(14)	21.5	(12)	32.7	(18)	22.3	(15)
Dec. 74-Dec. 77	32.7	(18)	22.3	(12)	5.7	(17)	6.3	(19)
Dec. 77-Dec. 78	29	(13)	22	(10)	13	(39)	4	(12)
Dec. 78-Dec. 79	20	(9)	36	(16)	10	(23)	6	(14)

APPENDIX TABLE 1 (C)

Number of Establishments Entering and Exiting

by Ownership Type

Madison

	Independent				Chain/Subsidiary			
	Entering per Year		Exiting per Year		Entering per Year		Exiting per Year	
	#	(%)	#	(%)	#	(%)	#	(%)
State Street/Capitol Concourse								
Dec. 72-Dec. 74	17.0	(11)	18.0	(11)	2.5	(10)	0.5	(2)
Dec. 74-Dec. 77	26.3	(17)	19.7	(13)	1.7	(6)	4.7	(17)
Dec. 77-Dec. 78	21	(11)	16	(9)	5	(26)	5	(26)
Dec. 78-Dec. 79	31	(16)	24	(13)	4	(21)	3	(16)
Rest of CBD								
Dec. 72-Dec. 74	5.0	(15)	4.5	(14)	0	(0)	0.5	(17)
Dec. 74-Dec. 77	7.3	(21)	5.3	(16)	0.7	(35)	0.3	(15)
Dec. 77-Dec. 78	5	(13)	7	(18)	1	(33)	0	(0)
Dec. 78-Dec. 79	4	(11)	8	(22)	0	(0)	1	(25)
Outlying Shopping Center								
Dec. 72-Dec. 74	3.5	(70)	2.0	(40)	2.5	(25)	1.5	(15)
Dec. 74-Dec. 77	4.0	(67)	1.3	(22)	1.7	(14)	1.3	(11)
Dec. 77-Dec. 78	2	(14)	4	(28)	1	(8)	3	(0)
Dec. 78-Dec. 79	3	(20)	2	(13)	2	(18)	0	(0)

APPENDIX TABLE 1 (D)

Number of Establishments Entering and Exiting

by Ownership Type

Memphis

	Independent				Chain/Subsidiary			
	Entering per Year		Exiting per Year		Entering per Year		Exiting per Year	
	#	(%)	#	(%)	#	(%)	#	(%)
Mid-America Mall								
Dec. 72-Dec. 74	17.5	(22)	16.5	(20)	9.5	(20)	4.0	(9)
Dec. 74-Dec. 77	11.3	(16)	24.3	(35)	1.0	(2)	9.7	(16)
Dec. 77-Dec. 78	10	(19)	4	(7)	2	(5)	3	(8)
Dec. 78-Dec. 79	8	(13)	22	(35)	2	(5)	14	(36)
Rest of CBD								
Dec. 72-Dec. 74	12.0	(10)	24.0	(21)	2.5	(31)	1.0	(13)
Dec. 74-Dec. 77	8.7	(9)	17.7	(19)	2.7	(25)	2.7	(25)
Dec. 77-Dec. 78	8	(12)	8	(12)	1	(9)	1	(9)
Dec. 78-Dec. 79	12	(18)	19	(28)	2	(18)	4	(36)
Outlying Shopping Center								
Dec. 72-Dec. 74	12.0	(28)	4.5	(20)	1.5	(25)	0.5	(8)
Dec. 74-Dec. 77	14.0	(25)	6.0	(11)	1.7	(21)	0.7	(9)
Dec. 77-Dec. 78	9	(12)	3	(4)	1	(9)	1	(9)
Dec. 78-Dec. 79	12	(14)	15	(18)	3	(27)	3	(27)

APPENDIX TABLE 1 (E)

Number of Establishments Entering and Exiting

by Ownership Type

New Orleans

	Independent				Chain/Subsidiary			
	Entering per Year		Exiting per Year		Entering per Year		Exiting per Year	
	#	(%)	#	(%)	#	(%)	#	(%)
Canal Street-Primary								
Dec. 72-Dec. 74	2.0	(11)	2.5	(14)	0.5	(50)	0.0	(0)
Dec. 74-Dec. 77	2.0	(11)	1.3	(7)	0.7	(35)	0.7	(35)
Dec. 77-Dec. 78	2	(11)	1	(5)	1	(50)	0	(0)
Dec. 78-Dec. 79	1	(5)	2	(10)	1	(33)	1	(33)
Canal Street-Secondary								
Dec. 72-Dec. 74	3.0	(5)	6.5	(11)	2.5	(9)	2.5	(9)
Dec. 74-Dec. 77	5.0	(10)	4.7	(0)	6.7	(24)	2.3	(8)
Dec. 77-Dec. 78	6	(12)	2	(4)	2	(5)	4	(10)
Dec. 78-Dec. 79	1	(2)	7	(13)	2	(5)	4	(10)
Rest of CBD								
Dec. 72-Dec. 74	48.0	(10)	60.0	(13)	4.5	(16)	4.5	(16)
Dec. 74-Dec. 77	57.7	(13)	73.3	(16)	8.0	(29)	4.7	(17)
Dec. 77-Dec. 78	70	(16)	50	(12)	5	(13)	9	(23)
Dec. 78-Dec. 79	48	(11)	78	(17)	2	(6)	4	(11)
French Market								
Dec. 72-Dec. 74	1.0	(4)	3.0	(12)	0.5	(--)	0	(--)
Dec. 74-Dec. 77	6.0	(20)	3.0	(10)	0	(0)	0.3	(30)
Dec. 77-Dec. 78	5	(13)	3	(8)	0	(--)	0	(--)
Dec. 78-Dec. 79	2	(5)	3	(7)	0	(--)	0	(--)

APPENDIX TABLE 1 (F)

Number of Establishments Entering and Exiting by Ownership Type

Portland

	Independent				Chain/Subsidiary			
	Entering per Year		Exiting per Year		Entering per Year		Exiting per Year	
	#	(%)	#	(%)	#	(%)	#	(%)
Portland Mall								
Dec. 72-Dec. 74	2.0	(5)	1.7	(4)	0.5	(12)	0.5	(12)
Dec. 74-Dec. 77	14.5	(38)	5.5	(14)	2.3	(57)	0.3	(8)
Dec. 77-Dec. 78	8	(16)	3	(6)	1	(10)	1	(10)
Dec. 78-Dec. 79	2	(11)	12	(21)	2	(20)	1	(10)
Rest of CBD								
Dec. 72-Dec. 74	34.0	(9)	27.7	(7)	10.0	(21)	3.0	(6)
Dec. 74-Dec. 77	85.0	(22)	83.0	(21)	10.7	(18)	10.3	(17)
Dec. 77-Dec. 78	61	(15)	49	(12)	14	(22)	15	(24)
Dec. 78-Dec. 79	54	(13)	88	(22)	13	(21)	14	(23)
Lloyd Center								
Dec. 72-Dec. 74	5.5	(13)	3.0	(7)	1.5	(11)	1.0	(7)
Dec. 74-Dec. 77	17.0	(41)	5.5	(13)	5.7	(38)	0.7	(5)
Dec. 77-Dec. 78	9	(18)	11	(22)	4	(13)	3	(10)
Dec. 78-Dec. 79	8	(17)	4	(9)	8	(26)	3	(10)

APPENDIX TABLE 1 (G)

Number of Establishments Entering and Exiting

by Ownership Type

Trenton

	Independent				Chain/Subsidiary			
	Entering per Year		Exiting per Year		Entering per Year		Exiting per Year	
	#	(%)	#	(%)	#	(%)	#	(%)
Trenton Commons								
Dec. 72-Dec. 74	2.3	(5)	3.7	(8)	2.5	(50)	0.0	(0)
Dec. 74-Dec. 77	3.0	(8)	11.5	(31)	0.0	(0)	2.3	(23)
Dec. 77-Dec. 78	3	(11)	7	(25)	0	(0)	1	(33)
Dec. 78-Dec. 79	5	(19)	3	(12)	0	(0)	0	(0)
Rest of CBD								
Dec. 72-Dec. 74	8.3	(2)	30.7	(16)	2.5	(36)	2.0	(29)
Dec. 74-Dec. 77	11.5	(7)	24.0	(16)	0.0	(0)	2.0	(25)
Dec. 77-Dec. 78	5	(5)	26	(24)	0	(0)	0	(0)
Dec. 78-Dec. 79	2	(2)	10	(11)	1	(25)	1	(25)

APPENDIX 2 (A)

Percentages of Businesses Growing and Declining in Employment By More Than 10 Percent Annually

Baltimore

	Small Independent		All Independent		Chain/Subsidiary	
	% Growing	% Declining	% Growing	% Declining	% Growing	% Declining
Lexington Mall						
Dec. 72-Dec. 74	18	18	27	27	14	14
Dec. 74-Dec. 77	11	33	8	50	25	0
Dec. 77-Dec. 78	0	9	0	13	0	0
Dec. 78-Dec. 79	29	43	33	44	--	--
Charles Center						
Dec. 72-Dec. 74	9	18	7	14	20	20
Dec. 74-Dec. 77	22	22	20	20	0	33
Dec. 77-Dec. 78	0	0	0	0	0	25
Dec. 78-Dec. 79	0	0	0	0	--	--
Rest of CBD						
Dec. 72-Dec. 74	14	10	15	11	4	0
Dec. 74-Dec. 77	18	14	19	17	3	8
Dec. 77-Dec. 78	6	8	6	8	6	13
Dec. 78-Dec. 79	8	9	7	10	0	0
Old Town Mall						
Dec. 72-Dec. 74	21	3	19	3	0	0
Dec. 74-Dec. 77	6	22	5	21	--	--
Dec. 77-Dec. 78	6	6	5	5	--	--
Dec. 78-Dec. 79	0	8	0	8	--	--

Note: "--" signifies number not presented due to 3 or fewer valid observations.

APPENDIX 2 (B)

Percentages of Businesses Growing and Declining in Employment By More Than 10 Percent Annually

Boston

	Small Independent		All Independent		Chain/Subsidiary	
	% Growing	% Declining	% Growing	% Declining	% Growing	% Declining
Downtown Crossing						
Dec. 72-Dec. 74	7.1	28.6	10.5	12.2	0	0
Dec. 74-Dec. 77	0	22.2	16.8	11.7	0	14.3
Dec. 77-Dec. 78	11.1	0	6.2	4.7	7.1	7.1
Dec. 78-Dec. 79	14.3	0	6.3	1.3	0	0
Rest of CBD (excl Quincy Market)						
Dec. 72-Dec. 74	14.3	17.1	9.7	10.2	7.0	9.3
Dec. 74-Dec. 77	22.2	33.3	12.4	15.5	26.5	11.8
Dec. 77-Dec. 78	4.0	0	6.1	5.0	3.2	3.2
Dec. 78-Dec. 79	5.0	15.0	12.2	6.4	0	0
Back Bay (excl Prudential Center)						
Dec. 72-Dec. 74	16.7	11.1	16.3	13.3	15.0	10.0
Dec. 74-Dec. 77	25.0	12.5	24.8	15.0	18.2	18.2
Dec. 77-Dec. 78	11.1	16.7	6.7	6.7	22.2	11.1
Dec. 78-Dec. 79	8.3	16.7	7.6	7.6	0	14.3

Note: "--" signifies number not presented due to 3 or fewer valid observations.

APPENDIX 2 (C)

Percentages of Businesses Growing and Declining in Employment By More Than 10 Percent Annually

Madison

	Small Independent		All Independent		Chain/Subsidiary	
	% Growing	% Declining	% Growing	% Declining	% Growing	% Declining
State Street/ Capitol Concourse						
Dec. 72-Dec. 74	20.4	15.0	18.6	17.7	9.1	9.1
Dec. 74-Dec. 77	29.4	20.7	28.4	20.6	22.2	11.1
Dec. 77-Dec. 78	3.4	6.8	3.9	7.7	0.0	0.0
Dec. 78-Dec. 79	12.5	7.7	11.8	4.7	0.0	50.0
Rest of CBD						
Dec. 72-Dec. 74	4.6	18.2	4.2	16.7	--	--
Dec. 74-Dec. 77	26.7	13.3	29.4	11.8	--	--
Dec. 77-Dec. 78	13.3	0.0	16.7	0.0	--	--
Dec. 78-Dec. 79	0.0	10.2	0.0	14.3	--	--

Note: "--" signifies number not presented due to 3 or fewer valid observations.

APPENDIX 2 (D)

Percentages of Businesses Growing and Declining in Employment By More Than 10 Percent Annually

Memphis

	Small Independent		All Independent		Chain/Subsidiary	
	% Growing	% Declining	% Growing	% Declining	% Growing	% Declining
Mid-America Mall						
Dec. 72-Dec. 74	12.5	12.5	16.4	12.7	25.0	16.7
Dec. 74-Dec. 77	4.2	4.2	6.7	3.3	4.4	26.1
Dec. 77-Dec. 78	3.9	7.7	3.1	6.3	0	0
Dec. 78-Dec. 79	15.8	0	16.7	0	--	--
Rest of CBD						
Dec. 72-Dec. 74	8.8	13.2	9.6	15.1	20.0	40.0
Dec. 74-Dec. 77	10.3	15.4	9.5	14.3	--	--
Dec. 77-Dec. 78	0	3.0	0	2.7	--	--
Dec. 78-Dec. 79	13.3	0	11.1	0	--	--
Outlying Shopping Center						
Dec. 72-Dec. 74	22.6	16.1	28.6	17.1	40.0	60.0
Dec. 74-Dec. 77	37.4	14.3	35.9	15.4	16.7	16.7
Dec. 77-Dec. 78	0	2.9	2.6	2.6	0	0
Dec. 78-Dec. 79	12.5	16.7	17.2	13.8	--	--

Note: "--" signifies number not presented due to 3 or fewer valid observations.

APPENDIX 2 (E)

Percentages of Businesses Growing and Declining in Employment By More Than 10 Percent Annually

New Orleans

	Small Independent		All Independent		Chain/Subsidiary	
	% Growing	% Declining	% Growing	% Declining	% Growing	% Declining
Canal Street-Primary						
Dec. 72-Dec. 74	--	--	15	23	--	--
Dec. 74-Dec. 77	--	--	15	8	--	--
Dec. 77-Dec. 78	--	--	17	0	--	--
Dec. 78-Dec. 79	--	--	14	0	--	--
Canal Street-Secondary						
Dec. 72-Dec. 74	29	29	14	25	5	5
Dec. 74-Dec. 77	20	60	31	16	0	16
Dec. 77-Dec. 78	0	14	6	6	0	0
Dec. 78-Dec. 79	0	43	4	11	0	0
Rest of CBD						
Dec. 72-Dec. 74	8	23	11	15	25	6
Dec. 74-Dec. 77	22	22	18	18	8	0
Dec. 77-Dec. 78	13	4	5	6	11	0
Dec. 78-Dec. 79	15	23	9	10	--	--
French Market						
Dec. 72-Dec. 74	--	--	10	15	--	--
Dec. 74-Dec. 77	--	--	11	5	--	--
Dec. 77-Dec. 78	--	--	0	6	--	--
Dec. 78-Dec. 79	--	--	13	0	--	--

Note: "--" signifies number not presented due to 3 or fewer valid observations.

APPENDIX 2 (F)

Percentages of Businesses Growing and Declining in Employment By More Than 10 Percent Annually

Portland

	Small Independent		All Independent		Chain/Subsidiary	
	% Growing	% Declining	% Growing	% Declining	% Growing	% Declining
Portland Mall						
Dec. 72-Dec. 74	25.0	14.3	21.9	18.8	--	--
Dec. 74-Dec. 77	5.9	47.1	5.3	47.4	--	--
Dec. 77-Dec. 78	4.8	4.8	4.4	4.4	--	--
Dec. 78-Dec. 79	0	0	0	0	--	--
Rest of the CBD						
Dec. 72-Dec. 74	16.0	12.8	16.8	12.9	7.3	7.3
Dec. 74-Dec. 77	19.1	16.8	18.6	17.7	12.0	20.0
Dec. 77-Dec. 78	9.9	10.4	9.0	11.2	10.5	15.8
Dec. 78-Dec. 79	13.9	12.1	13.1	12.4	0	11.1
Lloyd Center						
Dec. 72-Dec. 74	19.4	16.1	17.7	17.7	45.5	9.1
Dec. 74-Dec. 77	34.8	13.0	33.3	13.3	0	25.0
Dec. 77-Dec. 78	28.6	14.3	21.4	17.9	0	12.5
Dec. 78-Dec. 79	0	10.5	0	8.0	0	0

Note: "--" signifies number not presented due to 3 or fewer valid observations.

APPENDIX 2 (G)

Percentages of Businesses Growing and Declining in Employment By More Than 10 Percent Annually

Trenton

	Small Independent		All Independent		Chain/Subsidiary	
	% Growing	% Declining	% Growing	% Declining	% Growing	% Declining
Trenton Commons						
Dec. 72-Dec. 74	22.4	13.4	21.1	15.5	--	--
Dec. 74-Dec. 77	7.3	17.1	9.3	18.6	--	--
Dec. 77-Dec. 78	6.7	0	6.3	0	--	--
Dec. 78-Dec. 79	5.3	5.3	4.8	4.8	--	--
Rest of CBD						
Dec. 72-Dec. 74	16.9	11.2	16.0	12.8	--	--
Dec. 74-Dec. 77	10.5	19.3	9.7	24.2	--	--
Dec. 77-Dec. 78	2.4	7.1	2.2	6.5	--	--
Dec. 78-Dec. 79	0	12.5	0	11.1	--	--

Note: "--" signifies number not presented due to 3 or fewer valid observations.

APPENDIX TABLE 3 (A)

Percentages of Businesses Growing and Declining in Sales By More Than 10 Percent Annually (Independent Businesses Only)

Baltimore

	Small Independent		All Independent	
	% Growing	% Declining	% Growing	% Declining
Lexington Mall				
Dec. 72-Dec. 74	63	0	55	0
Dec. 74-Dec. 77	14	29	13	38
Dec. 77-Dec. 78	13	25	20	20
Dec. 78-Dec. 79	17	33	29	29
Charles Center				
Dec. 72-Dec. 74	38	0	30	0
Dec. 74-Dec. 77	57	29	57	29
Dec. 77-Dec. 78	--	--	--	--
Dec. 78-Dec. 79	--	--	--	--
Rest of CBD				
Dec. 72-Dec. 74	31	5	31	5
Dec. 74-Dec. 77	44	12	45	13
Dec. 77-Dec. 78	22	7	23	9
Dec. 78-Dec. 79	24	16	27	17
Old Town Mall				
Dec. 72-Dec. 74	36	21	39	19
Dec. 74-Dec. 77	50	43	47	47
Dec. 77-Dec. 78	25	17	31	16
Dec. 78-Dec. 79	67	0	71	0

Note: "--" signifies number not presented due to 3 or fewer valid observations.

APPENDIX TABLE 3 (B)

Percentages of Businesses Growing and Declining in Sales By More Than 10 Percent Annually

(Independent Businesses Only)

Boston

	Small Independent		All Independent	
	% Growing	% Declining	% Growing	% Declining
Downtown Crossing				
Dec. 72-Dec. 74	60.0	13.3	37.6	8.7
Dec. 74-Dec. 77	--	--	47.6	7.1
Dec. 77-Dec. 78	--	--	27.0	4.8
Dec. 78-Dec. 79	--	--	25.0	8.3
Rest of CBD (exc. Quincy Market)				
Dec. 72-Dec. 74	40.0	2.9	26.3	7.4
Dec. 74-Dec. 77	33.3	16.7	37.7	10.0
Dec. 77-Dec. 78	9.1	0	15.8	5.3
Dec. 78-Dec. 79	16.7	16.7	45.1	7.8
Back Bay (excl. Prudential Center)				
Dec. 72-Dec. 74	55.6	5.6	43.3	13.4
Dec. 74-Dec. 77	66.7	22.2	50.7	13.0
Dec. 77-Dec. 78	100.0	0	21.6	2.7
Dec. 78-Dec. 79	75.0	25.0	58.8	17.7

Note: "--" signifies number not presented due to 3 or fewer valid observations.

APPENDIX TABLE 3 (C)

Percentages of Businesses Growing and Declining in Sales By More Than 10 Percent Annually (Independent Businesses Only)

Madison

	Small Independent		All Independent	
	% Growing	% Declining	% Growing	% Declining
State St./Capitol Concourse				
Dec. 72-Dec. 74	38.9	17.6	39.2	17.5
Dec. 74-Dec. 77	59.7	9.0	60.5	10.5
Dec. 77-Dec. 78	29.5	8.2	31.0	9.9
Dec. 78-Dec. 79	31.5	7.4	32.3	11.3
Rest of the CBD				
Dec. 72-Dec. 74	33.3	9.5	34.8	8.7
Dec. 74-Dec. 77	53.9	0.0	57.1	0.0
Dec. 77-Dec. 78	25.0	0.0	35.7	0.0
Dec. 78-Dec. 79	31.5	7.41	71.4	NA

Note: "--" signifies number not presented due to 3 or fewer valid observations.

APPENDIX TABLE 3 (D)

Percentages of Businesses Growing and Declining in Sales By More Than 10 Percent Annually (Independent Businesses Only)

Memphis

	Small Independent		All Independent	
	% Growing	% Declining	% Growing	% Declining
Mid-America Mall				
Dec. 72-Dec. 74	35.9	5.1	41.7	6.3
Dec. 74-Dec. 77	52.4	14.3	63.0	11.1
Dec. 77-Dec. 78	36.8	0	36.0	0
Dec. 78-Dec. 79	35.3	11.8	42.9	9.5
Rest of CBD				
Dec. 72-Dec. 74	24.5	9.4	28.8	8.5
Dec. 74-Dec. 77	40.6	12.5	45.7	11.4
Dec. 77-Dec. 78	19.2	0	24.1	0
Dec. 78-Dec. 79	58.3	8.3	64.3	7.1
Outlying Shopping Center				
Dec. 72-Dec. 74	44.4	14.8	51.6	12.9
Dec. 74-Dec. 77	82.1	0	80.7	0
Dec. 77-Dec. 78	25.9	7.4	32.3	6.5
Dec. 78-Dec. 79	30.0	40.0	48.0	24.0

Note: "--" signifies number not presented due to 3 or fewer valid observations.

APPENDIX TABLE 3 (E)

Percentages of Businesses Growing and Declining in Sales By More Than 10 Percent Annually (Independent Businesses Only)

New Orleans

	Small Independent		All Independent	
	% Growing	% Declining	% Growing	% Declining
Canal Street-Primary				
Dec. 72-Dec. 74	--	--	31	39
Dec. 74-Dec. 77	--	--	80	0
Dec. 77-Dec. 78	--	--	38	0
Dec. 78-Dec. 79	--	--	50	0
Canal Street-Secondary				
Dec. 72-Dec. 74	57	43	44	12
Dec. 74-Dec. 77	80	0	65	3
Dec. 77-Dec. 78	57	0	45	0
Dec. 78-Dec. 79	71	0	68	4
Rest of CBD				
Dec. 72-Dec. 74	33	8	27	8
Dec. 74-Dec. 77	64	5	47	10
Dec. 77-Dec. 78	23	14	22	5
Dec. 78-Dec. 79	55	9	52	7
French Market				
Dec. 72-Dec. 74	--	--	24	10
Dec. 74-Dec. 77	--	--	41	6
Dec. 77-Dec. 78	--	--	13	0
Dec. 78-Dec. 79	--	--	50	0

Note: "--" signifies number not presented due to 3 or fewer valid observations.

APPENDIX TABLE 3 (F)

Percentages of Businesses Growing and Declining in Sales By More Than 10 Percent Annually (Independent Businesses Only)

Portland

	Small Independent		All Independent	
	% Growing	% Declining	% Growing	% Declining
Portland Mall				
Dec. 72-Dec. 74	34.6	0	31.0	3.5
Dec. 74-Dec. 77	57.1	14.3	57.1	14.3
Dec. 77-Dec. 78	38.5	7.7	38.5	7.7
Dec. 78-Dec. 79	42.9	14.3	42.9	14.3
Rest of CBD				
Dec. 72-Dec. 74	29.6	7.4	28.8	7.1
Dec. 74-Dec. 77	49.0	9.8	48.7	11.4
Dec. 77-Dec. 78	31.4	10.8	33.0	9.6
Dec. 78-Dec. 79	43.6	7.3	44.3	6.6
Lloyd Center				
Dec. 72-Dec. 74	50.0	13.3	51.5	15.2
Dec. 74-Dec. 77	61.9	14.3	64.3	10.7
Dec. 77-Dec. 78	52.6	10.5	53.9	11.5
Dec. 78-Dec. 79	29.4	5.9	34.8	8.7

Note: "--" signifies number not presented due to 3 or fewer valid observations.

APPENDIX TABLE 3 (G)

Percentages of Businesses Growing and Declining in Sales By More Than 10 Percent Annually (Independent Businesses Only)

Trenton

	Small Independent		All Independent	
	% Growing	% Declining	% Growing	% Declining
Trenton Commons				
Dec. 72-Dec. 74	32.3	20.0	30.0	20.0
Dec. 74-Dec. 77	31.6	10.5	30.8	10.3
Dec. 77-Dec. 78	14.8	14.8	14.3	17.9
Dec. 78-Dec. 79	29.4	5.9	26.3	5.3
Rest of CBD				
Dec. 72-Dec. 74	30.0	10.0	31.8	10.6
Dec. 74-Dec. 77	20.5	20.5	26.5	20.4
Dec. 77-Dec. 78	24.1	13.8	24.2	12.1
Dec. 78-Dec. 79	21.1	26.3	22.7	22.7

Note: "--" signifies number not presented due to 3 or fewer valid observations.

STATEMENT OF THE AMERICAN GAS ASSOCIATION

INTRODUCTION

The American Gas Association is a national trade association compromised of nearly 300 national gas distribution and transmission companies serving over 160 million consumers in all 50 States. Collectively, A.G.A. member companies account for nearly 85 percent of the nation's total gas utility sales annually.

A.G.A. supports the concept of revitalizing economically distressed areas, or enterprise zones [EZ's] by targeting tax incentives to those areas. The natural gas industry can aid the development of these areas by providing service to businesses which locate within them, but A.G.A. nevertheless feels that factors in addition to tax incentives (or direct grants) musts be considered in order to make EZ's fully successful.

DISCUSSION

A.G.A. has endorsed the concept of EZ's because targeted tax incentives for businesses and residences of the affected areas may be an effective method of promoting the revitalization of economically depressed areas. The combination of providing tax benefits for employers, reducing taxes for employees, and lowering capital gains tax rates represents an innovative approach to aiding depressed areas. These tax incentives have the potential to spur business activity and reduce unemployment, but should be considered along with other factors in order to foster the success of EZ's.

The natural gas industry can contribute to the success of EZ's in an important area: energy requirements. Natural gas can supply the energy needs of most EZ's without incurring high hook-up costs for the initial provision of service to businesses or residents who come to the EZ's. That is, natural gas utility service already exists in most urban areas which would be eligible for EZ status. Because of the economic recession and neighborhood deterioration, however, many of these areas have been at least partially abandoned. Nevertheless, the natural gas distribution network in these areas remains in place and operable. Therefore, reestablishing gas utility service at new businesses or for new residents in the EZ's could be accomplished with relatively little additional capital investment. This would help to contain excessive start-up costs for new businesses in EZ's and thereby help those entities overcome an otherwise possibly formidable obstacle.

Providing natural gas service to additional, new customers in EZ's would allow fixed costs to be spread over a greater number of ratepayers. Although this service for additional customers may require some capital expenditures to ensure that facilities can meet demand, utilities may allocate these expenditures to all customers on the system. One effect of rolling any additional expenditures into the existing fixed costs could be to reduce that portion of the fixed costs which each existing customer must bear.

While A.G.A. supports EZ proposals and recognizes that tax relief may provide a powerful incentive, tax relief should be part of a total "package" aimed at achieving successful results in EZ's. For example, the availability of a tax credit will not provide an incentive for a business which does not generate a profit in a current year against which it can claim the tax credit. To make the "package" effective for all businesses, the credits should be available even when profits are not generated. Also, the Committee may want to consider whether the "package", to be fully effective, should contain a provision aimed at encouraging investment in EZ's by allowing liberal limits on expensable property. Certain other issues may erode the effectiveness of tax incentives; therefore, A.G.A. believes that this Committee should determine the best ways to avoid allowing these other issues to become a "drag" on the incentives provided by tax relief. The other issues include the following: the level of municipal services that will be provided; the ability of public facilities to meet increased demands for their use in the EZ; the possibility that existing businesses may relocate in the EZ; the type of business interest that may be most effective in promoting economic revitalization; and, the regulatory requirements that accompany EZ plans.

Municipal services, such as police and fire protection, are vital elements in the success of EZ's. If local governments provide inadequate services, businesses may conclude that doing business in EZ's involves too much risk to justify locating in an EZ. Moreover, this risk often cannot be offset with insurance coverage since insurance companies refuse to provide coverage in areas presenting excessive risk of loss. In addition, inadequate police protection is likely to deter potential employees from working, or potential residents from locating, in EZ's if their safety is at stake. To overcome the drawback of inadequate municipal services, the tax incentives may have to be prohibitively generous to induce location in EZ's.

Public facilities, such as roads, highways and public mass transportation, and facilities that serve the public interest, such as railroads and communications equipment, must be adequate to meet the demands placed on them by the increased activity anticipated in EZ's. If these facilities are in poor repair, or inefficient, they will dissuade businesses or residents from locating in EZ's. Of course, this would tend to offset the incentives provided by EZ plans.

An unintended effect of the EZ plan could be to induce existing businesses to relocate from outside an EZ to inside the EZ in order to benefit from the incentives provided. This would represent a simple shifting of productive activity from one geographic location to another. Since this would produce no net gain in economic activity, legislation should be structured to ensure that this relocation is not encouraged. Rather, truly new business interests, or the expansion of existing businesses in the EZ, should be encouraged.

This Committee should also consider the types of businesses that will promote the success of the EZ concept. Generally, small and medium-size businesses have been successful at creating new employment opportunities. If this characteristic is considered by the Committee to be crucial to the success of EZ's, then measures should be taken in addition to tax incentives to help such firms overcome the hurdles inherent in starting a new business or expanding an existing one. Since new businesses (such as those that may be initiated in EZ's) frequently fail to make a profit in their first few years, capital requirements may pose a significant barrier to the success of EZ's and should be aided where possible. Similarly, businesses already existing in EZ's, but attempting to expand operations, may be equally as effective as new businesses in generating new employment opportunities. However, these businesses may also have difficulty raising capital for expansion and could receive assistance on an equal footing with new businesses.

Regulatory requirements, if perceived as too pervasive by potential participants in EZ's, may discourage the success of the EZ concept. Excessive requirements for compliance with various regulations could prove so costly that the incentives for business involvement in EZ development may be offset. In such a case, the attraction of business interests to EZ's may be insufficient to generate the level of economic activity necessary for revitalization of EZ's. Moreover, if EZ plans are themselves so encumbered with procedural and regulatory requirements that implementation of the plans is exceedingly difficult, the EZ concept could be doomed before it ever starts.

CONCLUSION

The natural gas industry can provide an energy source which will require a relatively small capital investment for service to new customers located in EZ's. This low start-up cost and generally competitive price of natural gas should facilitate the development of EZ's. However, to achieve revitalization of distressed areas, important considerations in addition to tax incentives must be addressed. Whether through conditions placed upon community participation or some other mechanism, legislation should encourage the following: adequate municipal services; public and, in some cases, private facilities which can handle anticipated levels and types of business activity; development of truly new or expanded businesses; the attraction of the types of business interests—usually small to medium concerns—which are most likely to contribute to the success of EZ's; and, regulatory requirements which will not discourage economic development.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Mr. Chairman, thank you for allowing me the opportunity to testify on behalf of H.R. 1955, the Enterprise Zone Act of 1983. As a sponsor of the Senate counterpart, S. 863, I commend the committee for holding hearings on this important bill.

This year, Members from both Houses have made major efforts to enact this bill. I am pleased to have the support of 42 of my colleagues, who have cosponsored the Senate bill, along with 221 cosponsors of H.R. 1955. These numbers demonstrate that the enterprise zone concept has truly gathered bipartisan support over the past years. It also has the support of many state and local governments.

I first introduced the enterprise zone concept to the Senate nearly four years ago. Since that time, the legislation has been refined with the help of business groups, local governments, and urban groups. In 1981 enterprise zone legislation was first discussed in the Senate and, as a result, some important modifications were made. Last year it was reported by the Finance Committee, but unfortunately there was not time to act on it. This year, the Senate has made a special effort to enact this bill. The provisions of enterprise zone legislation were included as an amendment to H.R. 2973, the Interest and Dividend Compliance Act. Although the amendment passed the Senate on June 16, it was dropped in the conference committee and not included in that bill's enactment.

In this time of continued high unemployment, we need enterprise zones more than ever. The economy has begun to turn around, and more Americans are going back to work, but the need for enterprise zones is increasingly evident in areas of structural unemployment—where jobs have been lost to changing industries more than to a sagging economy. Areas such as Minnesota's Iron Range, where the jobless have been stung by the ravages of structural unemployment, can use the boost the enterprise zones can provide.

In simple terms the supporters of enterprise zones view the problem of joblessness like this: there are no jobs because there are not enough opportunities in the areas that need them the most. Enterprise zones would encourage job creation through a Federal/local package of tax breaks and other incentives for businesses which locate in a designated zone.

There are many problems faced by businesses wishing to locate in enterprise zones that cannot be corrected by the Federal Government alone. Such problems as crime, weak infrastructure support, and city taxes remain barriers to business development. These serve as a double whammy when you consider that a prospective business already faces the usual problems of tax burdens, startup capital and technical expertise.

Enterprise zones address these problems by combining incentives provided by the Federal Government with those of local governments. Signs of high unemployment, poverty, or out-migration are not enough for an area to qualify for an enterprise zone designation. The local government must also assemble a package of tax and other incentives that meet the particular problems of the area. Moreover, the award of an enterprise zone will be granted on a competitive basis to test local commitment. That could include any number of things, such as improved infrastructure support, reduction of local taxes, relaxation of local regulations, managerial assistance and technical help.

These local contributions are then matched by Federal tax breaks, such as the elimination of capital gains taxes for business investment in the area, significant reductions in income taxes, and tax credits for wages paid to previously unemployed workers. This local/Federal package addresses the problems that all small businesses face as well as the particular problems of a business located in a depressed area.

Enterprise zone legislation should be aimed primarily at small business because it creates the vast majority of new jobs. In the past ten years, nearly 20 percent of new private-sector employment has come from businesses with 20 or fewer employees. Eighty percent of new jobs have been created by businesses with less than 100 employees.

My faith in business goes much deeper than statistics. My experience as a businessperson has shown me that small businesses offer an increased opportunity for rapid advancement when compared with larger corporations. People at the lower end of the wage scale are not so easily lost in the shuffle; the small businessperson is far more involved with the lives of his or her employees. A worker's qualities, problems, family and ambitions do not easily escape the boss' notice. Getting in on the ground floor of a small business is a very effective method of advancement, but most important, it stands in stark contrast from welfare.

But, to get in on the ground floor, a small business must have a foundation. This legislation provides small businesses with many advantages which will enable them to build a solid foundation. Some of these advantages are: Tax credit for zone employers; investment tax credit for zone property; elimination of capital gains taxation; industrial development bonds; and tax simplification and regulatory flexibility. These and other incentives contained in the legislation will give small busineses good reasons to locate in an enterprise zone.

Our Nation long ago accepted the responsibility of taking care of those who cannot take care of themselves. We have spent a lot of money doing just that. Unfortunately, we have not been as wise as we have been generous in meeting this responsibility. Today, our social welfare obligations cost the government nearly half of the Federal budget. One economist estimates that if we would just give to the poor all the money we spend on programs for them, we would raise all Americans above the poverty level.

Clearly we need a new approach in assisting our poor and jobless. The current antipoverty programs do provide crucial services, but they do not, on their own, appear to achieve any lasting good. They are for the most part stop-gap policies that address the symptoms but not the causes of poverty. They have failed to provide any meaningful opportunity for advancement.

In fact, the present system has trapped many of our poor in a self-perpetuating cycle of poverty. Instead of offering the poor a chance to pull themselves and their families out of poverty, the present programs unwittingly trap recipients in a self-perpetuating quagmire of poverty from which even the most enterprising have trouble emerging.

The answer is not spending more government money. The answer is jobs—jobs in the private sector. Although that remedy is easily prescribed, the method toward that cure is not. One means is through enterprise zones.

I do not contend that enacting the enterprise zone legislation alone will solve our present unemployment problems. But it can and should be part of the solution.

Mr. President, I believe it is important to take note of the fact that the state and local governments have already exhibited remarkable enthusiasm for the enterprise zone idea. Twenty states have already enacted enterprise zone legislation, and more are likely to do so in the future. State and local governments have already displayed considerable creativity in their free-standing enterprise zone efforts.

These states have also provided a wide variety of incentives in their zone legislation:

Connecticut legislation provides venture capital loans, corporate income tax credits, sales tax exemption, employment training vouchers, and $1,000 for each manufacturing job.

Florida provides loans and grants to community development corporations in state enterprise zones.

Kentucky has a vehicle for providing residents with equity interest in a zone through Neighborhood Enterprise Zone Associations, and allows exemptions from certain sales and use taxes.

Within some 480 zones, Louisiana exempts purchase of plant and equipment from state income, sales and franchise taxes for approved businesses.

Maryland offers loan guarantees from a Venture Capital Guarantee Fund and tax credits on local property taxes and wages paid to employees.

Minnesota abates 50 percent of the taxes on building expansion or new construction for the first 12 years.

Ohio provides sales tax exemptions and business income and unemployment tax credits, and allows unemployment tax credits property tax abatement.

The Enterprise Zone Employment and Development Act encourages these efforts. It not only provides an important and necessary complement to such state and local activities, but acts as a synergistic ingredient in that mix of activities essential to making enterprise zones successful. This is an excellent opportunity to demonstrate both intergovernmental and public/private partnerships in action. This is a fresh, promising approach to dealing with problems of structural unemployment and revitalizing distressed areas in our Nation's cities and rural towns.

Bipartisan support from both the House and Senate has shown the importance of this piece of legislation—virtually half the Members of Congress have sponsored it. However, we need an even greater bipartisan effort to enact this important jobs creation bill. I urge the members of this committee to endorse H.R. 1955, the Enterprise Zone Act of 1983, so that it can move ahead for mark-up and floor consideration.

STATEMENT OF HON. GEORGE E. BROWN JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, as a cosponsor of H.R. 1955, the Enterprise Zone Act of 1983, I commend your taking the opportunity to hold hearings on this worthwhile piece of legislation. The latest recession has brought home to many of us the devastation of our Nation's cities and underscored the economic plight of our rural communities. It is not a condition which inspires pride in our country or hope for the future.

The Legislation before your Committees on Ways and Means does not address every city, every community, every problem, but it does propose an alternative and an addition to past community development programs such as UDAG and CDBG. This experimental approach to a pressing problem tempers ingenuity with caution. By beginning slowly—25 designated areas per year for three years—this experiment will have time to develop and grow, time to succeed on its merits. And because it is experimental we must be sure to have excellent, yet diverse enterprise zone designees.

I am sure that your Committee has heard from many Members of Congress, many civic leaders, many members of the private sector about their spiritless communists: communities with high unemployment, lost population, and no employment opportunities; communities with no sign of economic growth and no hope; communities without future. These communities must be among our priorities, but there are other communities equally distressed.

My own district in southern California is expected to be among the fastest growing areas in the nation in the 1980's. By the year 2000, its population will more than double; employment will barely keep pace. Despite rapid growth, the economy in our area is changing; unemployment has been higher than both the national and state averages. The city of Ontario, for example, has suffered a great deal of unemployment and job loss because of plant shutdowns. The General Electric Plant and Kaiser Steel Mill have curtailed or eliminated roughly 10,000 jobs. It will be tough for those same people, many of whom have lived their entire lives in our area, to find alternative work. Let us not forget that it can be as traumatic for rapidly growing areas to keep pace with employment as it is for communities faced with employment losses.

The Inland Empire, as it is commonly know, will be striving to meet the needs of its residents with the limited resources available to it. An enterprize zone within the region will primarily help those long-term residents who have traditionally been bypassed by economic growth. It will enable these residents to develop needed skills, enriching their lives, their community, and their nation.

Several communities in my district have been reviewing their possible eligibility for an enterprise zone, particularly the cities of San Bernardino and Ontario. I am enclosing a letter which Robert E. Ellingwood, Mayor of Ontario, addressed to Mr. Ralph Tabor, the San Bernardino County representative here in Washington. Mayor Ellingwood succinctly outlines the problems his city faces, and concludes that enterprise zones could be one facilitating factor in improving the employment picture. By permission of Mr. Tabor, here follows the letter:

CITY OF ONTARIO

CITY HALL ONTARIO, CALIFORNIA 91764 AREA CODE 714 986-1151

R. E. BOB ELLINGWOOD
Mayor
ROBERT K. ABEL
HOMER F. BRIGGS
FAYE MYERS DASTRUP
BEECHER MEDLIN
Council Members

ROGER D. HUGHBANKS
City Manager
DELORIS E. ARTERBURN
City Clerk
KENNETH M. KEENLY
City Treasurer

November 17, 1983

Mr. Ralph Tabor
316 Pennsylvania Avenue, SE
Washington, D.C. 20003

Dear Mr. Tabor:

This is in reference to Congressional consideration of the Federal Enterprise Zone.

As Mayor of the city of Ontario, I strongly support such legislation and the designation of a portion of this City as a Federal Enterprise Zone.

By way of brief background, Ontario and immediately contiguous areas have suffered a great deal of unemployment and job loss because of plant shutdowns. The General Electric Plant and Kaiser Steel Mill have curtailed or eliminated roughly 10,000 jobs because of changing economic circumstances. The jobs lost are by their very nature most unlikely to be replaced. Essentially, these jobs were un- and semi-skilled positions involved in assembly work. The persons that hold these jobs face continued unemployment because of the mismatch between their limited skills and the employment opportunities that are available. These individuals, in some cases, will be unlikely to ever secure employment unless and until some economic catalyst is available to encourage the construction of appropriate employment centers, i.e., new industries.

As a result of a study done by a partnership effort (please see brochure) of private and public groups, one clear option is the development of an officially designated Federal Enterprise Zone. This conclusion was reached only after carefully weighing infrastructure needs, drainage problems, aircraft noise considerations, and limited public funding.

As a result of these factors and others enumerated in the report, a mechanism is clearly necessary to help the City provide the necessary incentives to industry to supply badly needed employment.

The problems of the proposed zone are greater than plant shutdowns and declining industrial base. The vacancy rate in the commercial section of the downtown area is high and additional incentives are needed to encourage the reinvestment besides the City's redevelopment efforts. The combination of city, county and federal incentives would result in a strong and vigorous revitalization.

Our member of Congress, George Brown, has been a major resource in the development of this proposal and his assistance is gratefully acknowledged.

In conclusion, the city of Ontario strongly urges approval of the Federal Enterprise Zone legislation and the designation of the city of Ontario as an Enterprise Zone.

Sincerely,

R. E. Ellingwood

R. E. Ellingwood
Mayor

Again, I would like to thank you, Mr. Chairman, and your Committee for providing the opportunity to comment on legislation which will permit communities to develop their own response to their own unique employment problems. Along with other government efforts, it may help to alleviate a major crisis in our country, give us pride in our cities and communities, and give hope where hope was lost.

STATEMENT OF THE BROWNSVILLE (TEX.) ECONOMIC DEVELOPMENT FOUNDATION

Dear Sirs, the People of Brownsville, Texas need the advantage of a Federal Enterprise Zone now. Even during the economic expansion of the seventies, Brownsville/Harlingen/San Benito SMSA was one of the three poorest areas in the United States as measured by per capita income.

First came the US recession, then the Texas oil turn down, the onslaught of Central American immigration, and finally the devastating peso devaluation and the attendant end to valuable Mexican trade.

What has followed has been a crippling of our people's ability to meet responsibilities in basic city services, education, and even meeting the barest personal needs. Medical care to the poor has been drastically cut, the schools are overcrowded with immigrant students jeopardizing the quality of our educational product, and more than 17 percent are unemployed.

The precarious balance of free enterprise has been severely damaged. More than 20 percent of the businesses have closed. The need is staggering in human terms.

There are no simple solutions to these problems. But the people of Brownsville are used to solving their own problems with hard work, sacrifice, and raw intelligence. This city has withstood the ravages of wars, disease, and depression. We have pursued whatever opportunity available to improve the quality of life, however meager.

The Enterprise Zone concept works. With these advantages we are better armed to go out and attract new businesses to our area; to provide desperately needed jobs which in turn boost trade, more investment, more jobs. An Enterprise Zone will help the people of Brownsville help themselves. It is the best of all kinds federal assistance because it builds incentive, self reliance, stability, a future and it costs so much less than the alternative.

The people of Brownsville have not surrendered. We have organized ourselves, evaluated our strengths and weaknesses, and have begun to move forward.

The Enterprise Zone will become a catalyst for dynamic improvement. The need is great and the reserves are low. We need the Enterprise Zone now.

For the good of our city, its people, we urge you to create Enterprise Zone status immediately.

City of Buffalo,
Office of the Mayor, November 22, 1983.

Re hearing-distressed area tax incentives.

Hon. Dan Rostenkowski,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

Dear Chairman Rostenkowski: It is indeed a pleasure to be able to provide you with our analysis of what the impact would be of various enterprise zone and targeted tax incentive proposals on job development in the City of Buffalo.

A task force of local business leaders, which I appointed in March 1982, unanimously approved the attached legislative position paper in July 1983.

The proposed target area in the city is 2.5 square miles, is composed of a 94 percent minority population, and lost 55 percent of its population between 1970–1980. Over 70 percent of the families in the area are low income.

The task force examined the Kemp bill, Administration bill and the Nowak bill. You may find it of particular interest that both Congressmen Nowak and Kemp are from the Buffalo area and provided assistance to the task force in examining various approaches.

The following summarizes the task force recommendations:

1. The distressed area definitions in the Kemp Administration bills were generally suitable, but it was found that Buffalo would qualify even under far more stringent distress criteria.
2. H.R. 1955 (Administration) provides for elimination of capital gains tax which the task force recommends only if capital gains were reinvested in the zone.
3. H.R. 2375 (Nowak) provides for direct credit assistance to young firms, infrastructure grants, and tax credits for hiring disadvantaged workers. These were endorsed as most effective to stimulate jobs in Buffalo.
4. Federal legislation should insure the continuation of IRB's and UDAG's in a zone.
5. A federally chartered Enterprise Zone Corporation, modeled on Public Law 95–290 perhaps linked to a new federal development bank, is required to insure that local, state, and federal coordination of investment and tax incentives occurs.
6. Major industrial plants that have closed, such as the Republic Steel Plant in Buffalo, should be allowed to be included in a zone.

In closing, I also think it critical that targeted tax incentives be authorized only in areas where greater development potential exists due to previous major capital investments by the federal, state and local levels. This will maximize the return on investment of dollars already spent in a city such as Buffalo.

Sincerely,

James D. Griffin.

Attachment.

Position Paper on Creation of a Buffalo Urban Enterprise Zone, by the Buffalo and Erie County Urban Enterprise Zone Task Force, D. Bruce Johnstone, Chairman

INTRODUCTION

Since March of 1982, the Enterprise Zone Task Force appointed by the Mayor and County Executive has attempted to prepare a local program in advance of Federal and State legislation. During this period there have been constant modifications and numerous study bills which were examined by the Task Force including the Kemp-Garcia, the Administration, and the Nowak bills. The most recent legislation was introduced March 1983.

In late 1982, a decision was made by Chairman Johnstone and local staff to (1) prepare our own legislative position, and (2) to test the effectiveness of numerous tax incentives on financial models of various target expansion industries.

I. Basic Approach to a Buffalo Enterprise Zone

Based upon an extensive review of various position statements issued by national groups that champion the concept of an enterprise zone, it is quite clear that Buffalo's program must make significant departures from portions of established theory.

Of particular note is:

(1) Current legislation is based on a theoretical model of revitalizing a small and depressed inner city area that sits in the middle of a healthy metropolitan economy. Direct reliance on local business expansion is paramount. In Buffalo, there is a large depressed area surrounded by a metropolitan economy that is not particularly healthy.

(2) Legislation counts on the City to make substantial public investment commitments coupled with tax abatement. In Buffalo substantial tax abatements are already offered through existing programs. Local governments cannot afford to make additional public investments.

(3) The tax incentive program is designed to be self-administered (thru IRS). Local development corporations and economic development agencies are not discussed in most proposals. We are convinced that an enterprise zone in Buffalo must build upon, not substitute for, existing programs which have proven to be effective.

A re-oriented enterprise zone program, absent these deficiencies in approach, can have a major impact in stimulating jobs in Buffalo.

II. Goals Statements

The proposed program is based on accomplishing three major goals:

A. Aim for quick large scale results in jobs and housing, and for a long term change in the area's basic economy.

B. Stimulate an immediate return on major public and private investments already committed in a highly targeted area of the inner city.

C. Integrate the Buffalo Enterprise Zone Strategy with a new Community and Economic Adjustment Strategy for the Buffalo area.

III. Buffalo Enterprise Zone Objectives

The following are specific objectives to carry out the above goals:

A. Create an uptown Health Industry Research Campus expanding upon the resources of the 12 square block General Hospital/Roswell Park Cancer Research Institute health complex.

B. Concentrate downtown development along the transit mall. The Zone will help to relieve the burden of the mall assessment tax.

C. Encourage further major growth of downtown high technology and back office computer service industries by building upon the current Oak-Michigan Corridor.

D. Benefit low income zone residents through employment opportunities and incentives for housing development. Retain existing incentive programs, particularly UDAG's for housing.

E. Build a new City light industrial base for emerging small manufacturing companies on 200 acres of EDA-assisted industrial parks on the far east side.

F. Reopen basic steelmaking operations centered at the Republic Steel/Donner-Hanna Complex, through a basic steelmaking revitalization and tax incentive program. This effort is designed to create jobs for the structurally unemployed and retain employment in area steel finishing companies.

IV. Description of the Proposed Buffalo Urban Enterprise Zone

The proposed Buffalo Urban Enterprise Zone is a targeted area (See Map #1) with the following characteristics:

Size: 2.5 square miles

1980 Population: 11,566

10 year Loss: -54.5%

Minority Population: 93.9%

Low-Income Population: 70%

A minimum of 5,000 zone residents is required by a proposed legislation. Population must have declined by 20% between 1970 and 1980. Although figures for unemployment are not available below the municipal level, we do know that minority unemployment is more than 30% for the entire SMSA. We would conclude that unemployment for residents of the proposed zone is at least that high. This area is recommended on the basis of inclusion of the most distressed residential area coupled with areas of most opportunity for private investment where substantial local capital commitments justify a solid case for a "local course of action" to support the competitive process of Federal designation (see Appendix).

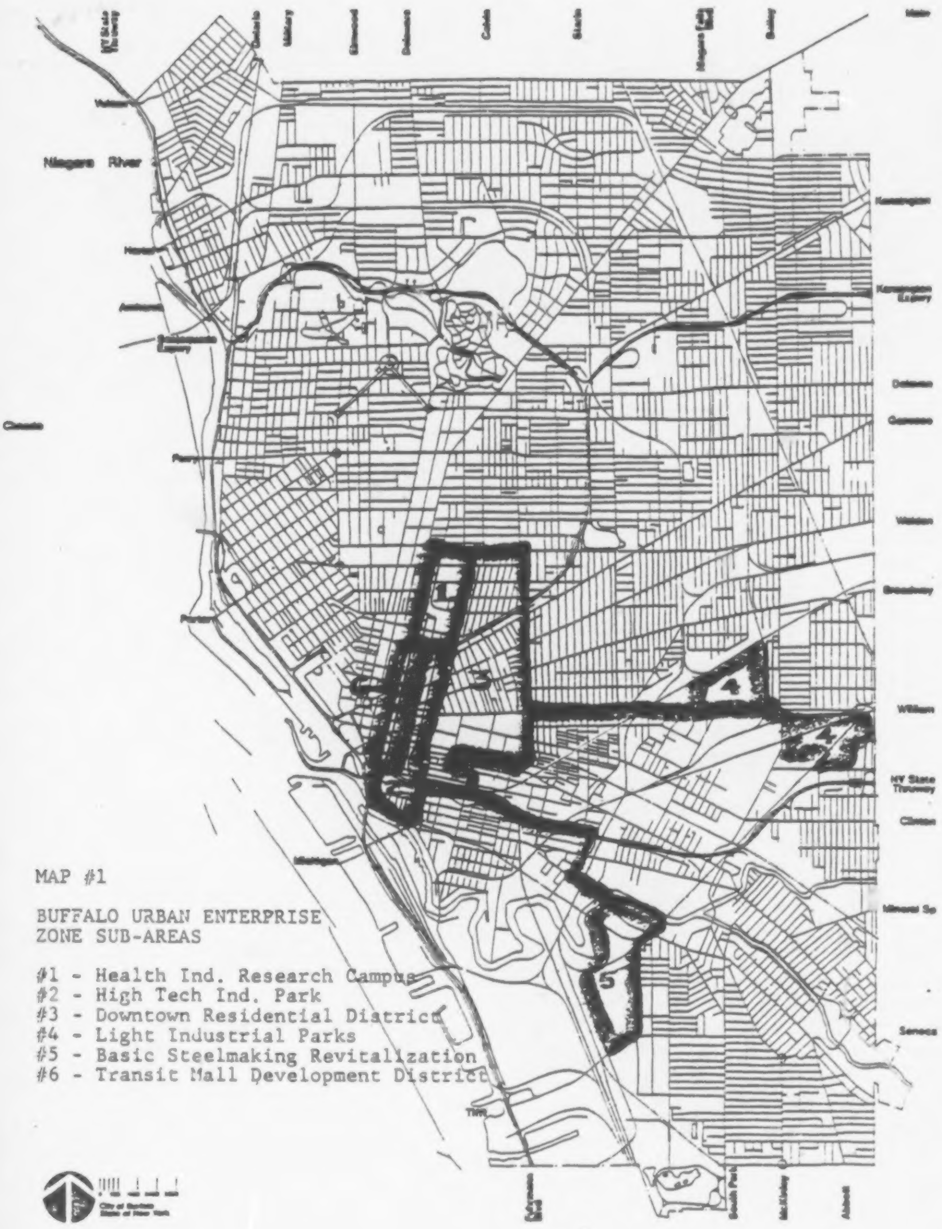
The Urban Enterprise Zone is divided into 6 distinct sub-areas.

1. Health Industry Research Campus
2. High Technology Industrial Park
3. Downtown Residential District
4. Light Industrial Parks
5. Basic Steelmaking Revitalization
6. Transit Mall Development District

Each sub-area has its own core of committed public and private investment and latent economic strength to build upon. See appendix for detailed information on each zone area.

V. Create a Federally-Chartered Buffalo Urban Enterprise Zone Corporation

A federally-chartered corporation is required to assist in the financing, coordination, and administration of the Buffalo Urban


Niagara River
Vulcan
Hertel
Amherst
Scajaquada Expwy
Canada
Ferry
Porter
Michigan
Tifft
Main
Bailey
Kensington
Kensington Expwy
Delavan
Genesee
Walden
Broadway
William
NY State Thruway
Clinton
Mineral Sp
Seneca
South Park
McKinley
Abbott
1
2
3
4
4
5
6
City of Buffalo
State of New York

MAP #1

BUFFALO URBAN ENTERPRISE
ZONE SUB-AREAS

#1 - Health Ind. Research Campus
#2 - High Tech Ind. Park
#3 - Downtown Residential District
#4 - Light Industrial Parks
#5 - Basic Steelmaking Revitalization
#6 - Transit Mall Development District

Enterprise Zone. The Corporation would be modelled on Public Law 95-290 which established the Lowell Historic Preservation Commission whose membership includes Federal, State, City, and neighborhood representatives with essential control resting with the City of Lowell to purchase, preserve, and redevelop portions of a 10 square block area of downtown Lowell, Massachusetts.

The Buffalo Urban Enterprise Zone Corporation would have the following characteristics:

- Federally Chartered
- Under Jurisdiction of the Secretary of Housing & Urban Development
- The Board shall include representatives of the City, County and private sector
- $100 Million in authorized Set-Asides from Existing Federal Loan and Grant Appropriations
- Functions
  - Target Federal/State Loans/Grants
  - Expedite Committed Federal Aid in the Pipeline
  - Certify Local Businesses for Zone Tax Incentives
  - Examine Federal, State, Local Regulations Hindering Business Expansions in the Zone
  - Contract with Local Economic Development, Housing, Job Training, and Marketing Corporations to Carry Out Zone Development Objectives
  - Corporation Staff Expenses apportioned as Local Contribution

VI. Analysis of Financial Incentives*

Firms have only so much tax liability. The more they can reduce that tax liability by using investment tax credits, the less benefit they derive from employment tax credits. The basic financial model constructed to measure the impact of enterprise zone tax credit on job generation indicates a wide range impact depending on the type of industry.

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*This section is based upon work done by Professor William Ganley, Center for Applied Research in Urban and Regional Development. A complete copy of this report is on file.

A. Manufacturing firms would receive substantial reductions of federal tax liabilities solely through the direct investment tax credit.

B. There is a clear trade off between capital and labor intensive industries: the more labor intensive a firm, the greater the probability that new employment will be created.

C. Certain types of retail, wholesale and service establishments would benefit from the disadvantaged workers employment tax credits, and therefore be most likely to both expand in the zone and hire disadvantaged workers.

The results of the tests conducted by this study have important implications for the success of the Enterprise Zone Program. Many firms will have an incentive to relocate into a designated zone. They will escape Federal taxes by doing so but will not necessarily add to regional economic activity. Large profitable firms have more of an incentive to locate in an Enterprise Zone than smaller firms. The potential percentage increase in their after-tax profits is much greater. For industries where all taxes are eliminated, profits will increase proportionately when the effective tax rate is the highest. There is a need to make an adjustment to the Legislation that will assist small firms.

The disadvantaged worker tax credit may not be an incentive for firms to hire disadvantaged workers. Firms may potentially avoid all federal taxes by using the ten percent credit alone.

The following table lists twenty industries selected as examples of likely candidates for Enterprise Zones. Six of these industries are expected to be totally exempt from federal taxes as a result of the general 10 percent tax credit alone. The other industries would not become totally exempt from taxes on the basis of the 10 percent credit alone and are, consequently, more like to hire disadvantaged workers.

LIKELY CANDIDATES FOR OPERATING IN AN ENTERPRISE ZONE

INDUSTRY	Percent of Taxes Eliminated by Investment Tax Credit*	Firms More Likely to Hire Disadv. Workers
Sausage/prepared meat products	75%	X
Flour/grain mill products	32%	X
Prepared feeds	38%	X
Bottled/canned softdrinks	48%	X
Men's, boys' suit/coats	157%	
Fur goods	60%	X
Wood household furniture	132%	
Periodicals, printing	68%	X
Commercial printing	118%	
Bookbinding	238%	
Plastics materials	32%	X
Biological products	55%	X
Medicinal chemicals & botanical products	27%	X
Pharmaceutical preparation	44%	X
Paints, varnishes	56%	X
Leather goods	104%	
Screw machine products	105%	
Machine tools, metal forming types	89%	X
Semiconductors & related devices	89%	X
Engineering lab, scientific & research instruments & equipment	86%	X
RETAIL/SERVICE		
Eating Places	65%	X
Laundry & Cleaning Services	50%	X
Automobile Repair Shop	42%	X

*If a firm had an effective tax rate of 35%

Because of the low proportion of wages to sales in retail and service establishments, the ten percent tax credit alone will not eliminate all of their taxes. It should be noted that new mom and pop businesses could benefit from zone incentives. Such businesses are important to neighborhood revitalization. However zone incentives could also put existing small establishments at a disadvantage.

VII. Regulatory Relief Measures

A. Federal Regulations

Worker Unemployment Laws: All industry groups surveyed identified worker unemployment laws as most burdensome. Problems cited included difficulty interpreting regulations, time spent

on paperwork, and uncooperative attitude of State Department of Labor in resolving unemployment cases. Possible modification should focus on procedural reform, and a thorough examination of the State Department of Labor's organizational system to better respond to business concerns.

Recommendations:

1. The City of Buffalo should petition the Federal/State government for creation of an Enterprise zone ombudsman with an office in the City (possibly within the Zone). The latter would work strictly on behalf of Enterprise Zone businesses and serve to streamline all Federal and State regulatory requirements within the Zone. The office would assist local businesses comply with minimum wage, worker unemployment, equal opportunity, and occupational safety requirements.

2. The proposed Buffalo Urban Enterprise Zone Corporation would work with the ombudsman in specifying Federal and State regulations would could be relaxed within the Zone. Specific petitions could then be made to the Federal Government.

B. State Regulations

State Environmental Quality Review Act: Although environmental regulations were not identified as serious drawbacks to business expansion, there are opportunities for reducing the government paperwork which accompanies SEQRA compliance without diminishing environmental quality.

New York State Banking Law: Restrictions placed on Savings Bank institutions serve to reduce the amount of loans which can be lent out within an area. This lessens the competitiveness of businesses within the Enterprise Zone area for commercial bank loans.

Recommendations

1. The City of Buffalo should petition the New York State Department of Environmental Conservation to prepare a generic environmental impact statement for the Enterprise Zone which would be funded by the State, eliminating the need to prepare individual environmental assessments and ensuring maintenance of environmental quality.

2. Examples of banking relief measures include relaxing the leeway provisions of New York State Banking Laws which presently limit to 5% the total amount of bank assets which can be lent out in commercial mortgages. Possibly, loans made within the Enterprise Zone could be exempted from inclusion in the 5% total. This would provide an incentive for greater commercial lending in the Zone.

C. Local Regulations

Local Codes, Zoning Regulations, and Licensing Requirements: Several local regulatory systems affect business development. These include zoning requirements, building code, housing and property code, fire safety code, and numerous licenses which must be obtained prior to conducting business. There is a need to formalize and define permit requirements for these separate regulatory systems.

Recommendations:

1. The City of Buffalo shuld consider establishing an Enterprise Zone office within the Department of Inspections and Licenses. The office would assist businesses complete the necessary paperwork and give priority processing and review to Enterprise Zone applications.

2. In order to ensure flexibility within each local code and license requirement, the power of waiver should be added to each regulation. Essentially, the power of waiver permits a relaxation of code or license requirements if agreed to by a reviewing agency composed of key City department heads. Waivers would only apply to businesses within the Enterprise Zone. Specifically, it is recommended that the local building code be waived in favor of the state building code.

3. Consideration should be given to creating a special zoning overlay district within the Enterprise Zone which would allow for flexible land use/bulk/height requirements and streamline review of special permits, rezonings, and variances.

VIII. Conclusions and Recommendations

A. There is substantial analysis to indicate that new jobs are created by younger firms - firms that need direct capital and credit assistance. HR 2375 "The Enterprise Development and Industrial Revitalization Act of 1983" (Nowak) provides for a revolving loan fund for new businesses and expansion of SBA Small Business Loans in the enterprise zone. It also provides for a change in the tax code and an expansion of Small Business Investment companies to improve capital access for new businesses. Tax deductions are allowed for investments in small business stock issues. (Key elements of the bills referenced here are summarized in appendix G).

B. Various tax credits are allowed under HR 1955 "The Enterprise Zone Employment and Development Act of 1983" (Administration). It provides for elimination of capital gains tax for owner's businesses operating in a zone. This would facilitate the transfer of assets and business ownership in a distressed area. It provides investment and employment tax credits that could be carried forward by a business for the life of a zone. Legislation should consider the possibility of firms being able to sell excess tax credits to other firms in a zone. It is recommended that capital gains be eliminated only if they are reinvested in the zone.

C. Infrastructure cost assistance may be necessary in order for a Buffalo zone to be effective. HR 2375 would appropriate funds for infrastructure improvements and the construction of public facilities as well as for planning and technical assistance.

D. Local incentives for the zone should concentrate on deregulation, streamlining business assistance programs, improving business awareness of existing economic development programs, and improving the business licensing and inspection environment through the establishment of an ombudsman for the zone.

E. Local financial incentives should be limited to existing local and state economic development programs. Federal legislation should insure the continuation of IRB's and housing UDAG's in the zone. Also, New York State should revise the Job Incentive Program, which ended on April 1, 1983, and make it available for firms expanding in the zone.

F. A federally chartered Buffalo Enterprise Zone Corporation, locally supported, is required to insure the coordination of the multiplicity of targetted Federal/State/Local actions outlined herein, and local business assistance programs. For example, expansion of the Foreign Trade Zone satellite area could be considered if the demand grew in any zone sub-area for this incentive.

G. Evidence received by the Task Force suggests zone tax credits would be of significant benefit to new operators of the Republic Steel complex and of little value to corporations with sizeable losses. Due to the uncertainty of the plant's future its inclusion is recommended.

H. Further study and consideration is indicated in a number of areas that the Task Force was unable to reach satisfactory conclusions:

1) Unanticipated impacts might arise within the zone and to areas immediately adjacent to the zone boundary. The Task Force notes that the final boundary will be negotiated between the local government and Federal officials.

2) The Federal designation of zones will be a competitive process and may require enforceable local funding commitments. The Task Force recommends the selection of an area that includes the most distressed area. Although a far larger area would qualify, Buffalo may neither be able to afford the local commitments, nor would its chances of being selected be enhanced.

3) The Task Force was unable to make firm conclusions on the business impact to housing developers of the tax incentives, but concludes the market demand may be enhanced by added jobs in the zone.

4) The number of zones approved (assuming one for Buffalo is also approved) is critical to the success of the program. Highly targeted and limited numbers greatly enhance possible success. If hundreds are approved, few locational incentives would ultimately remain for Buffalo's zone.

APPENDIX

Zone Areas

A. Health Industry Research Campus

B. High Technology Industrial Park

C. Downtown Residential District

D. Light Industrial Parks

E. Basic Steelmaking Revitalization

F. Transit Mall Development District

G. Legislative Summary

APPENDIX A

Sub-Area #1 - Health Industry Research Campus

1. Description of Area

Bound on the south by Goodell, on the north by Best, on the east by Michigan, and on the west by both sides of Main Street; this area is approximately 142 acres. The major land use in the area is the Roswell Park Memorial Institute Research Campus. The area also includes related medical businesses and vacant land and buildings. There is a transit stop on Main Street. Some residential units are being developed. There are few existing residences in the area. The area has been proposed as an extension of the Oak-Michigan High-Technology Industrial Park.

2. Supporting Agencies:

    1.) WNY Technology Development Corp.
    2.) Buffalo Enterprise Development Corp.

3. Committed Investments

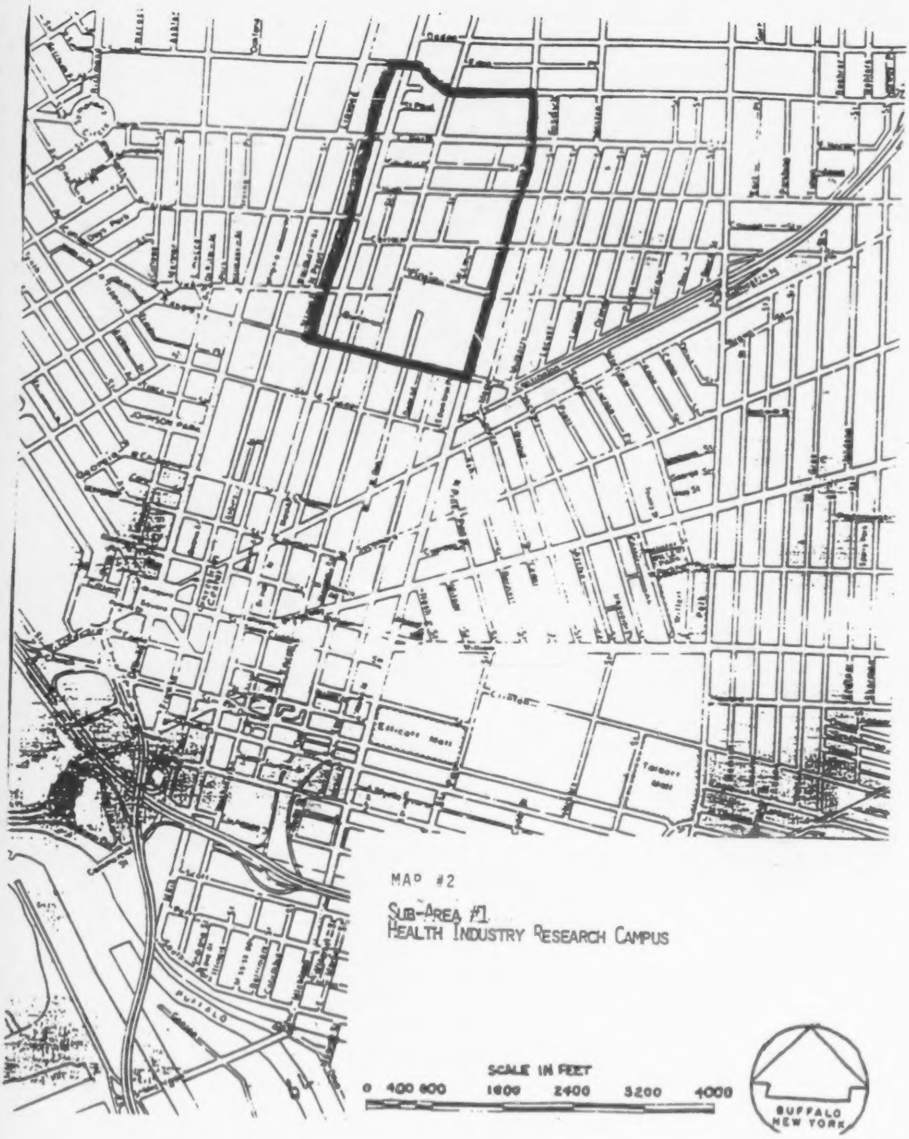
    -New General Hospital building ($120 Million)
    -Allen/Hospital Transit Station ($8 Million)
    -Oak St. Urban Renewal Improvements ($22 Million)
    -New Housing including a CDBG elderly project

4. Economic Strengths

    -SUNYAB Medical School Teaching Hospital
    -Roswell Park Memorial Institute (National Cancer Research Center)
    -Bryant/Stratton Business Institute
    -FDA Lab (Nearby)
    -Allentown Historic District
    -Near Downtown Services

5. Jobs, Housing, Economic Targets

    -Creation of 1200 New Jobs in 15-20 new hi-tech health industry companies
    -Renovation and Construction of 600,000 sq. ft. of Research Industry space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MAP #2

SUB-AREA #1
HEALTH INDUSTRY RESEARCH CAMPUS

APPENDIX B

Sub Area #2 - High Technology Industrial Park

1. Description of Area

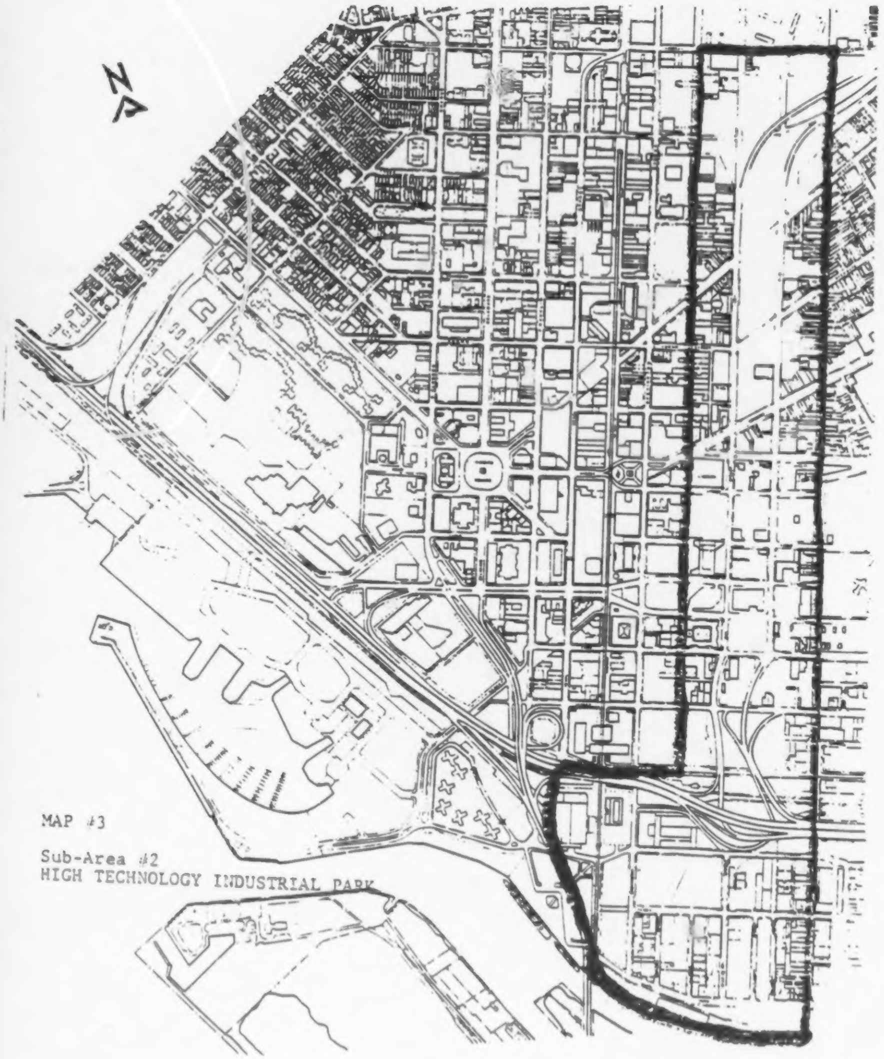
(See Map #3). Just over 200 acres, 0.3 square miles, this largely vacant area is three blocks wide for most of its length. The majority of the area is the City's proposed high technology industrial park which includes an approved Foreign Trade Zone designation. The balance is an older industrial area south of the Thruway.

2. Supporting Agencies
    1.) Buffalo Area Chamber of Commerce
    2.) ECIDA/City/County

3. Committed Investments
    -Elm-Oak Arterial
    -Cleared Land
    -4 Transit Stations
    -CBD Improvements
    -Waterfront Amenities

4. Economic Strengths
    -Downtown Services
    -Accessibility
    -High Image
    -ECC Downtown Campus

5. Jobs, Housing, Economic Targets
    -Creation of 2000 New Jobs in High Technology and "Back Office" Office Computer Service Industry Operations



MAP #3

Sub-Area #2
HIGH TECHNOLOGY INDUSTRIAL PARK

APPENDIX C

Sub-Area #3 - Downtown Housing Development

1. Description of Area

This area is approximately 670 acres or 1.1 square miles (see Map #4). The boundaries of the area are defined by the combination of census tracts plus the frontage on both sides of Main Street. These tracts lost the largest percentage of population in the County (-54.5%); 94% of the population is non-white; and 70% of the families were below 80% of the County median income in 1970. (See Table below). The most recent figure for minority unemployment is 23.5% for the Buffalo SMSA in 1980. (Unemployed data is not available at the tract level.)

	Population			NonWhite		Families		
Census Tract	1980	1970	Change	1980	%	#	# With Income Below 80% Median	%
(1/2) 13.01	67	103	-35.0	33	49.3	10	4	40
(1/2) 13.02	709	1347	-47.4	610	86.0	238	175	74
14.02	4103	8727	-53.0	4046	98.6	1810	1311	72
25.02	3053	6863	-55.5	2952	36.6	1477	1110	75
(3/4) 31	3634	8351	-56.5	3214	88.4	1770	1129	64
Total	11566	25391	-54.5	10855	93.9	5305	3729	70

2. Supporting Agencies

   1.) Buffalo Municipal Housing Authority
   2.) Neighborhood Housing Corp. (City)

3. Committed Investments

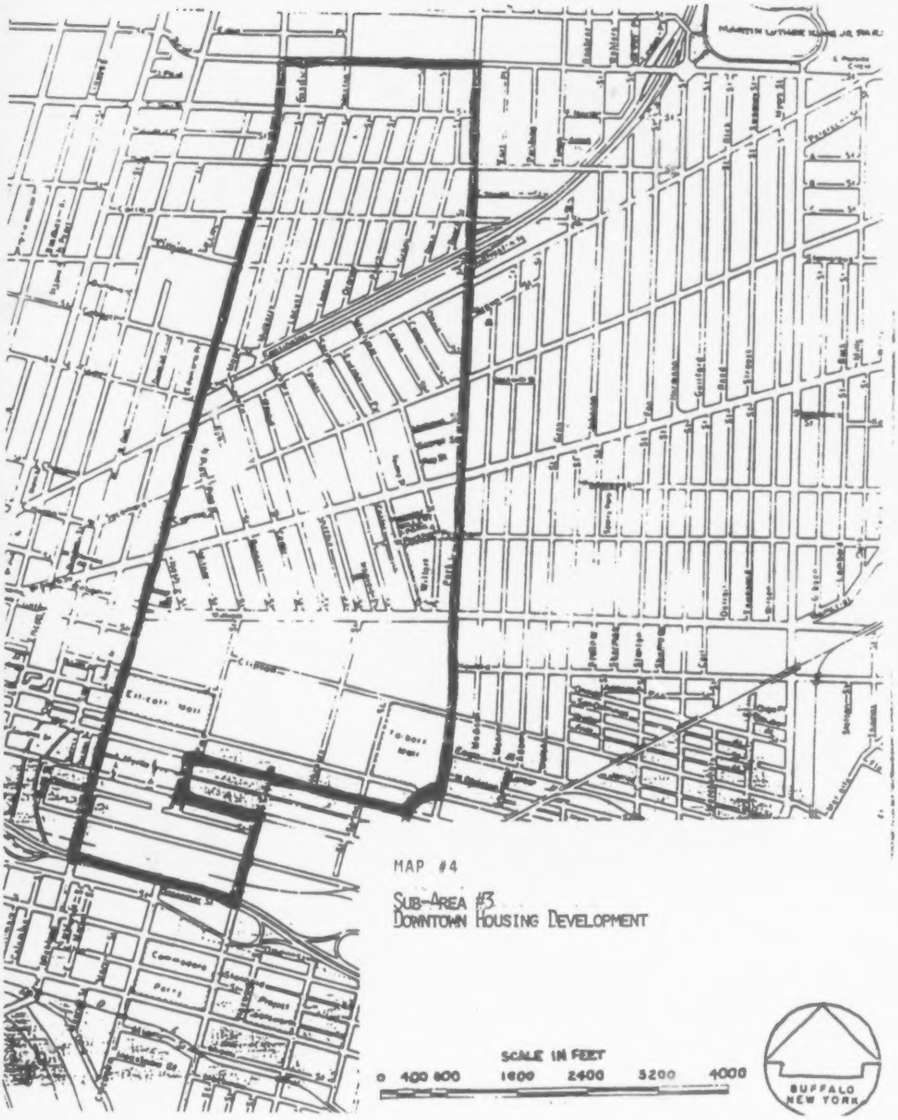
   -Neighborhood Improvements
   -Ellicott urban renewal improvements
   -HUD Renovation Funds-Ellicott Mall
   -Sheehan Memorial Hospital
   -"Magnet" Schools
   -School 47 Center

4. Economic Strengths

   -Proximity to New Downtown Service Jobs
   -Proximity to Downtown Services and Entertainment

5. Jobs, Housing, Economic Targets

   -Renovation of 400+ Units in Ellicott Mall Towers
   -Construction of Willert Park Subdivision and Infill (500+ Homes)
   -Retain UDAG's for housing development as an incentive in the zone.


MARTIN LUTHER KING JR. PARK
Ellicott Mall
Commodore
Perry
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MAP #4

SUB-AREA #3
DOWNTOWN HOUSING DEVELOPMENT

APPENDIX D

Sub-Area #4 - Light Industrial Parks

1. Description of Area

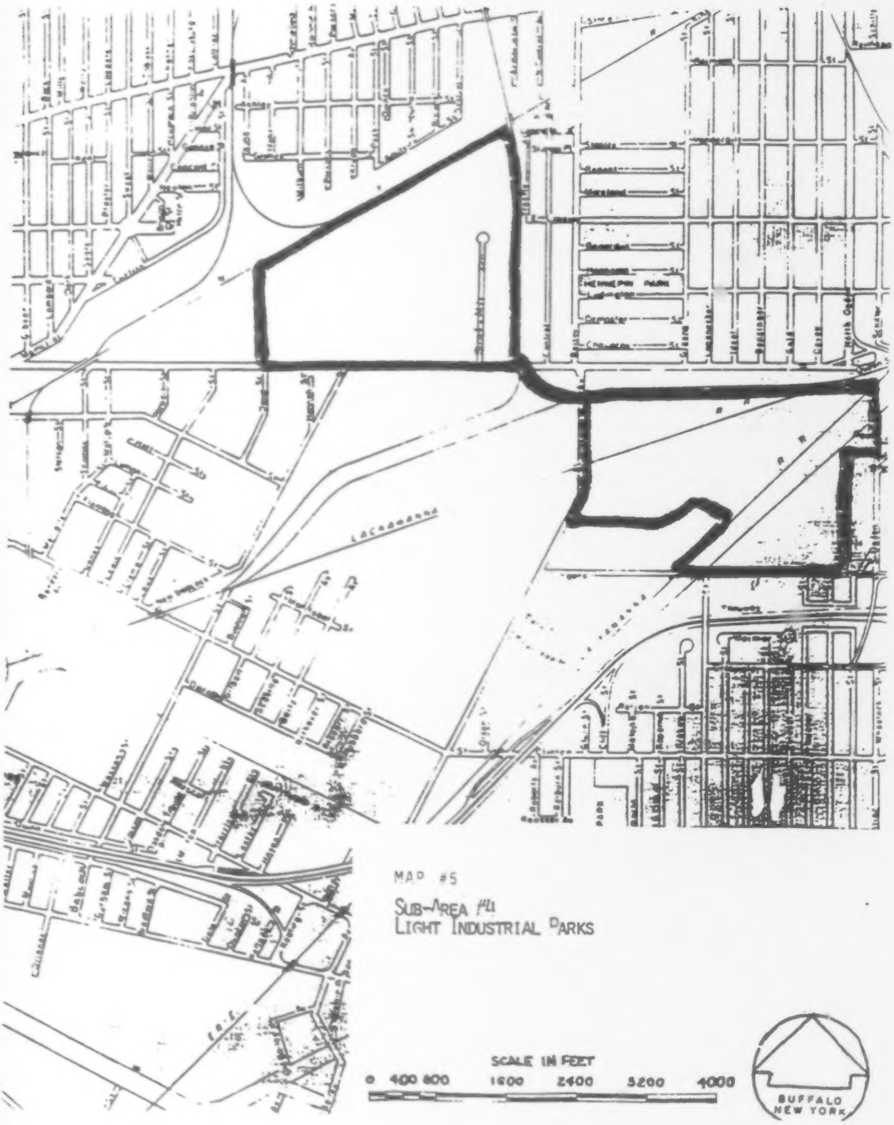
This area extends east along William Street to the City line. It includes no additional residences. It is just under 300 acres in area, approximately 0.5 square miles (see Map #5) and includes the City's prime light industrial development areas.

2. Supporting Agencies
    1.) ECIDA/County
    2.) Buffalo Division of Economic Development
    3.) Chamber of Commerce

3. Committed Investments
    - -$5.0 Million in EDA Funds
    - -County Improvements-$4.0 Million
    - -Highway Improvements-$12.0 Million
    - -Railroad Improvements-$2.0 Million
    - -Land Clearance

4. Economic Strengths
    - -Ready to Build Industrial Park Land
    - -Super highway access
    - -Proximity to Labor
    - -Railroad Service

5. Jobs, Housing, Economic Targets
    - -Creation of 2500 New Jobs and Construction of 35 Small Manufacturing and Service Facilities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MAP #5
SUB-AREA #4
LIGHT INDUSTRIAL PARKS

APPENDIX E

Sub-Area #5 - Basic Steelmaking Revitalization

1. Description of Area

This 270 acre 0.42 square miles area is the heart of Buffalo's former heavy industry area (see Map #6). A number of large industrial facilities are located in this area, some of which are vacant. This area includes no additional dwelling units.

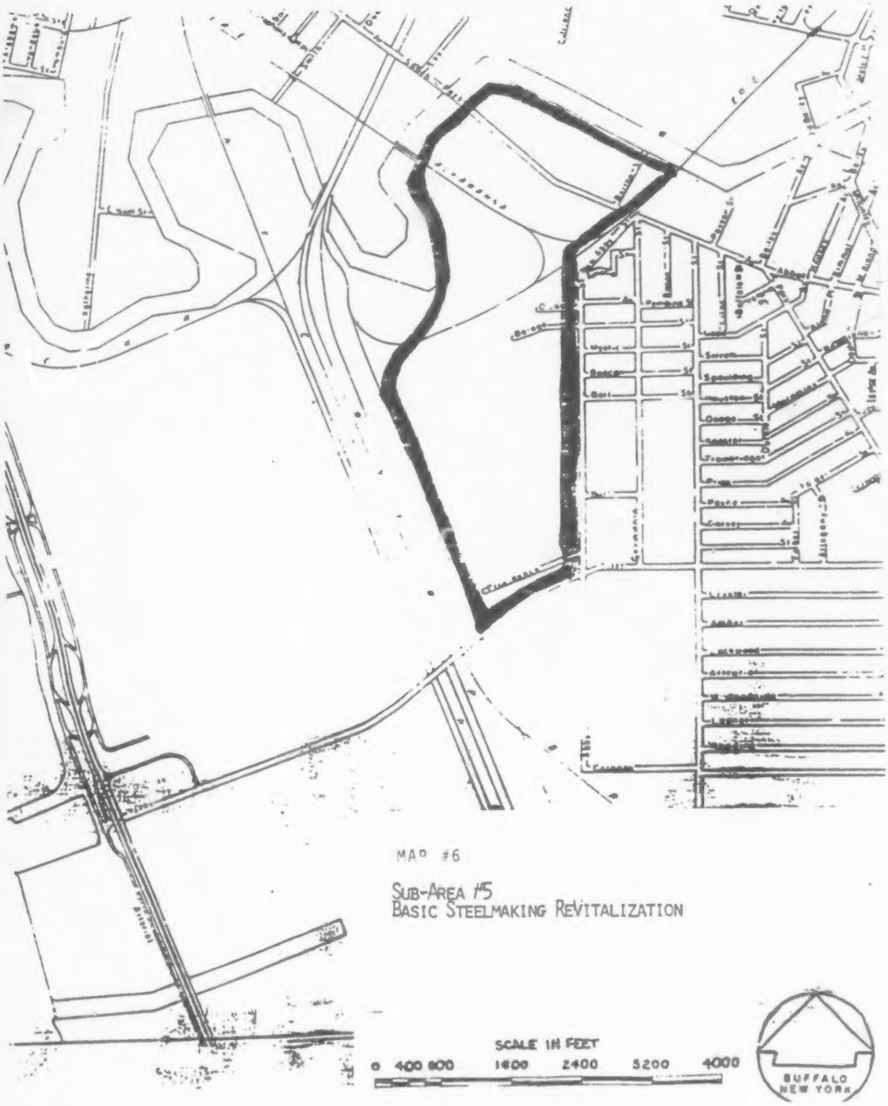
2. Supporting Agencies
    1.) State of New York
    2.) ECIDA/County/City
    3.) Organized Labor

3. Committed Investments
    -$75 - $100 Million in recent Private Investment in Republic Steel, Donner-Hanna, and Railroad Facilities
    -Buffalo River Improvements

4. Economic Strengths
    -High Performance Basic Steel Facilities
    -Small Integrated Steel Plant
    -By 1984 last Remaining Local Basic Steelmaking Complex
    -Fate tied Heavily to Auto Industry

5. Jobs, Housing, Economic Targets
    -Rehire up to 3000 structurally Unemployed Steelworkers
    -Retain a portion of 8000 Indirect Metal Industry Jobs Threatened by Bethlehem Steel Closing
    -Retain Product Cost Advantages to Local Buyers

It should be noted that Enterprise Zone incentives as currently proposed would not be beneficial to the Republic Steel Corporation since they do not need the tax credits.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MAP #6

SUB-AREA #5
BASIC STEELMAKING REVITALIZATION

APPENDIX F

Sub-Area #6 - Transit Mall Development District

1. Description of Area

This 150 acre lineal area parallels the transit mall development. The 6.2 mile transit line surfaces just south of Tupper Street to run at grade through the downtown. The transit line represents an investment in excess of $400 million. An additional $42 million will be expended on the surface portion. This is the single largest investment in the Buffalo area. Along the surface portion of the line are a revitalizing theater district, the downtown retail core, and the downtown office core. Although there is considerable amount of new development, there remain large numbers of vacant and underutilized facilities.

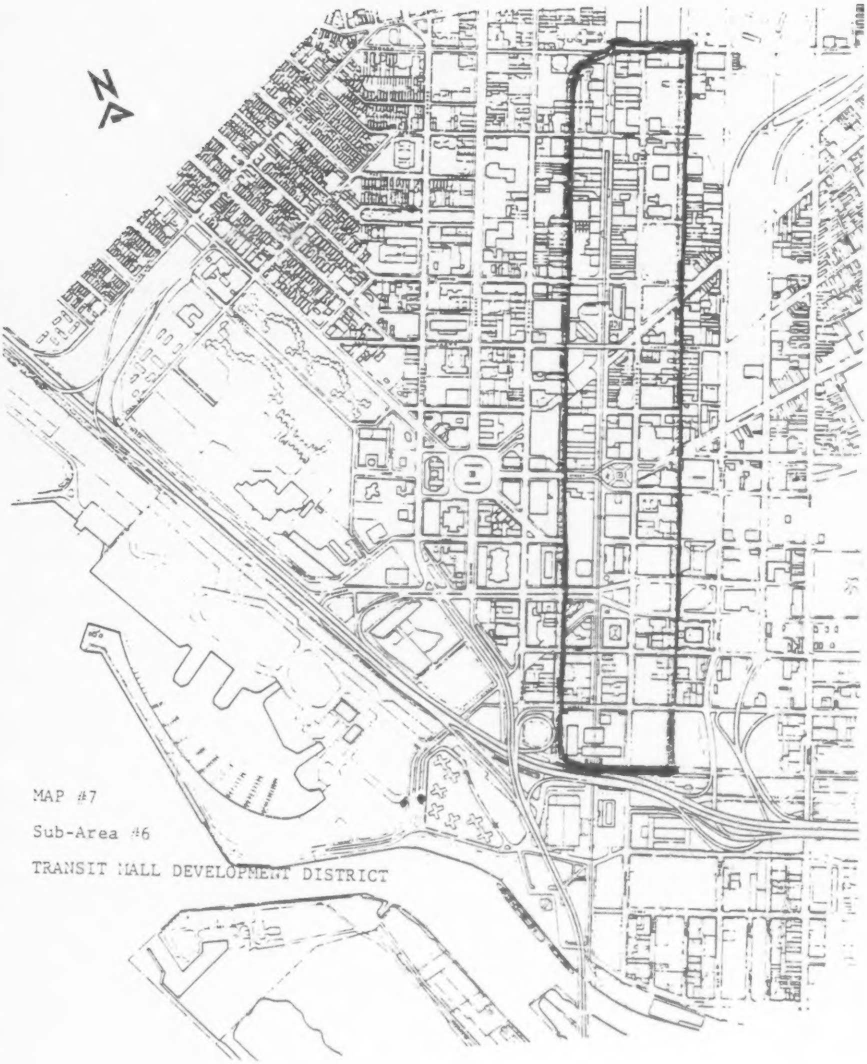
2. Supporting Agencies
   - City
   - NFTA
   - Mall Management Corporation
   - ECIDA

3. Committed Investments
   - Transit Line and Mall
   - Hyatt Hotel, New Bank Buildings, New Parking
   - Theater District
   - Convention Center
   - Retail and Office Cores

4. Economic Strengths
   - Regional Theater
   - Emerging Nightclubs and Restaurants
   - Growth in Convention Accommodations
   - Retail Core
   - Proximity to Toronto/Southern Ontario

5. Jobs, Housing, Economic Targets

   - Concentrate retail and other commercial activity along the transit mall
   - Assist emerging restaurant and nightclub activities by removing sales and excise taxes on liquor by the drink sales
   - Encourage housing and commercial development through targetted use of the non-industrial UDAG program



MAP #7

Sub-Area #6

TRANSIT MALL DEVELOPMENT DISTRICT

APPENDIX

G

SUMMARIES OF LEGISLATION

THE ENTERPRISE ZONE EMPLOYMENT AND DEVELOPMENT ACT OF 1983

(S. 863, H. R. 1955)

--Brief Description--

Concept

The underlying concept of enterprise zones is to create an environment conducive to economic revitalization and job creation in distressed areas through relief from taxes, regulations, and other governmental burdens, improving municipal services and infrastructure, and involving private entities and neighborhood organizations. Because the program is based on the concept of removing government burdens rather than providing government subsidies, it requires no Federal appropriations.

Local and State governments will nominate areas for Federal Enterprise Zone designation. Within designated zones the Federal government will offer major tax incentives and regulatory relief to stimulate job creation, business growth, and physical revitalization.

Eligibility

To be eligible for zone designation, areas must satisfy the following criteria:

- Have a continuous boundary; and a minimum population of 4,000 if located within a jurisdiction with a population of 50,000 or greater, or 1,000 in smaller areas specifically qualified as a rural area, or be located entirely in an Indian reservation,
- Be in a jurisdiction or "pocket of poverty" that is UDAG eligible, and
- Be of pervasive poverty, unemployment, and general distress, and have:
    - an unemployment rate of at least 1.5 times the national average, or
    - a poverty rate of at least 20 percent or more in all census tracts, or
    - at least 70 percent of the households in the area with incomes below 80 percent of the median income of households of the local government, or
    - a 1970 to 1980 population decrease of at least 20 percent.

Tax Incentives

The incentives are designed to achieve two crucial goals:

1. First, they will create a new sense of economic potential within the zones, by dramatically expanding entrepreneurial activity. The bill does this by:
    - Eliminating capital gains taxes on investment within zones.
    - Providing an additional investment tax credit for investment within zones: 3% and 5% for zone personal property and 10 % for new construction property; and an unused credit carryover for the life of the zone or 15 years, whichever is longer.
    - Extending the unused credit carryback to three years and the unused credit carryover for the life of the zone or 15 years, whichever is longer.
    - Insuring that small issue industrial developments bonds (IDBs) will continue to be available within zones, and that accelerated cost recovery for IDB-financed property is permitted.
2. Second, the bill recognizes that persons on welfare may face the highest marginal tax rates of all. This creates a poverty trap for millions of Americans. To encourage the poor, when able, to seek taxpaying jobs and to encourage job creation within enterprise zones, the bill provides the following incentives:
    - An employee personal income tax credit for wages earned in the zone of 5% of the first $10,500 in wages.
    - An employer credit for hiring disadvantaged workers equal to 50% of the worker's wage for three years, phasing out to 40%, 30%, 20%, and 10% over the following four years. This credit has no cap, which gives the employer a major incentive to train and retain disadvantaged workers for higher-wage jobs.
    - An employer credit for 10% of total enterprise zone payroll (for existing businesses, this is 10% of the increase in payroll after zone designation) for the first $17,500 paid to qualified employees.

Designation

A local and State government may jointly request enterprise zone designation of an area which they certify meets eligibility requirements. The core of the nomination process is the Course of Action, which outlines commitments the local and State governments will make to improve the climate for job creation, economic growth, and community development within the zone. It may include tax reduction incentives, regulatory relief, improved local services and infrastructure, commitments from private groups to provide assistance to zone entrepreneurs, involvement of residents in a variety of ways, or other incentives they may choose to provide. The Secretary of HUD, in consultation with other Federal agencies, would designate up to 75 zones during the first 3 years of the program, with one-third going to rural areas, giving preference to zones with the strongest and highest quality Courses of Action, and the broadest support and commitment by private entities, organizations, neighborhood associations and community groups.

Other Provisions

- Following Federal designation, State and local governments may together apply for waiver of Federal regulations if such waiver is in the public interest, would not overturn a statutory requirement, and would not present a risk to health, safety or the environment, or to civil rights protections. The bill does not propose a change in the minimum wage, since it is fixed by statute.
- Whenever possible and desired, foreign trade zones should be established within enterprise zones. The bill provides for expedited processing of foreign trade zone applications.

* * *

THE ENTERPRISE ZONE EMPLOYMENT AND DEVELOPMENT ACT OF 1983

(S. 863, H.R. 1955)

The 1983 legislation incorporates several technical amendments plus the following changes from the Enterprise Zone Tax Act of 1982. (H.R. 6009, S. 2298):

1. Adds a "Purposes" section, which states the joint objectives of stimulating creation of new jobs and promoting revitalization of economically distressed areas. [Section 2.]
2. Retains the provision added by the Senate Finance Committee requiring that at least one-third of the zones designated be located outside Metropolitan Statistical Areas or in jurisdictions within Metropolitan Statistical Areas that are determined by the Secretary of HUD, in consultation with the Secretary of Commerce, to be rural. [Subsection 7871(a)(2)(C)(ii).]
3. Reduces the minimum population requirement for areas outside of Metropolitan Statistical Areas and other areas under 50,000 from 2,500 to 1,000 to encourage participation by smaller communities. [Subsection 7871(c)(2)(C)(i)(II).]
4. Requires State and local governments with jurisdiction over nominated areas to certify that a nominated area meets the eligibility requirements, rather than the Secretary so certifying. [Subsection 7871(c)(3).]
5. Adds an "Evaluation and Reporting Requirements" section to insure that the program will be monitored and evaluated. [Section 103.]
6. Adds a section exempting from NEPA and related laws the act of designating an enterprise zone itself. NEPA and related protections continue to be mandated in the zone following designation. [Subsection 104(c).]
7. Preserves potential eligibility for Federal enterprise zone employment tax credits for businesses that hire qualified workers after a zone receives State enterprise zone designation. [Subsections 201(c)(3)(A) and (d)(3)(B).]

ENTERPRISE DEVELOPMENT AND INDUSTRIAL REVITALIZATION ACT OF 1983

HON. HENRY J. NOWAK

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Wednesday, April 13, 1983

● Mr. NOWAK. Mr. Speaker, our Nation's older cities are facing the prospect of long-term economic deterioration. The demise of our country's industrial base, persistently high unemployment and the plight of our displaced workers are dramatic symbols of the grim problems encountered by these urban centers.

In light of these serious economic problems, on March 23, 1983, I introduced the Enterprise Development and Industrial Revitalization Act of 1983. This act is a refined version of the Enterprise Development Act of 1981, as well as being an active response to the recommendations of the report on job creation and the revitalization of small business released by my Subcommittee on Tax, Access to Equity Capital and Business Opportunities.

These investigations reemphasized the importance of targeting aid to small- and medium-sized businesses in distressed areas, particularly in our older urban centers. This development process encompasses procedures to insure a viable infrastructure base, upfront incentives for investment in plant and equipment and for working capital.

The Administration's primary urban initiative is based on targeted tax incentives. I contend that this is too narrow a concept to spur growth in distressed areas. Instead, tax incentives should be combined with other concepts to form a comprehensive, broad-based and balanced agenda for urban economic revitalization.

My home city, Buffalo, N.Y., suffering from a 19.1 percent unemployment rate, is a prime example of a traditional industrial center struggling to combat economic deterioration. Layoffs and unemployment are inherent in all plant closings and relocations, but the presently unemployed American, the formerly productive wage earner faces even greater discouragement and distress. Today's displaced worker is envisioning the prospect of losing his home and property, as well as being unable to support his family. As our country transforms from a manufacturing-based economy to a service-based economy the plight of the displaced worker must be addressed.

In order to meet the present economic challenges and to initiate long-term revitalization, the Enterprise Development and Industrial Revitalization Act of 1983 couples a comprehensive development investment strategy with targeted tax incentives, as well as provisions for retraining the displaced worker.

Title I of this act establishes a successor agency to the Economic Development Administration (EDA). States, economic development districts, local governments and pockets of distress in otherwise prosperous areas will be recipients of funding, which will provide essential seed and working capital for new and developing enterprises, and loans for small businesses. Grants will be targeted toward infrastructure improvements and the construction of public facilities, as well as technical planning and assistance. This proposal authorizes $425 million a year for development facilities and $75 million a year for planning, both over a 3-year period. All of these projects will have job creation potential.

Title II of this act provides adequate financing for enterprise development by amending Small Business Administration programs. For small firms located in distressed areas, my legislation would permit such firms to receive enterprise development loans up to $500,000 if a certain amount of capital is obtained from non-Federal sources SBA would also need the applicant's assurance that any loan granted would provide further employment opportunities. Additionally, the borrowing authority of small business investment companies (SBIC's) would be increased to encourage these firms to invest in job expansion businesses. In general, my bill enables SBIC's to borrow on a 4-to-1 or 5-to-1 basis from SBA, as opposed to the current 3-to-1 or 4-to-1 ratios.

I recognize the importance of tax incentives to spur business' internal capital formation, and under title III of my proposal tax incentives are targeted toward areas and businesses meeting certain criteria. Job expansion areas are designated as such by embodying a population of at least 5,000 and by falling under one of the following two categories: First, unemployment rate for area is at least 1 percent higher than national average; or second, has experienced sudden economic dislocation resulting in job losses.

Once an area qualifies as a job expansion area, tax incentives for capital investment may be applied to qualified job expansion businesses. These provisions are:

First, an expensing allowance on property purchases of an additional $50,000;

Second, a 10-percent investment tax credit on construction of new buildings;

Third, an additional $400,000 of used property would be eligible for investment tax credit;

Fourth, a 25-percent investment tax credit would be allowed on renovation of buildings at least 20 years old;

Fifth, the investment tax credit would be refundable up to $250,000;

Sixth, a 2-percent payroll-based tax credit for contribution to employee stock ownership plans by qualified job expansion businesses;

Seventh, a 10-percent jobs tax credit for increasing payroll expenditures over a base period; and

Eighth, a deduction in the amount of $20,000 for individuals filing separate returns ($40,000 for joint returns) is an individual investor purchases the stock of small business in a designated distressed area.

My bill addresses the plight of the displaced worker by offering businesses a direct incentive to hire and train displaced employees. A business which hires qualified displaced employees would be allowed a 50-percent job tax credit. Furthermore, employees may receive a 5-percent tax credit based on the wages earned from the business in the distressed area.

Mr. Speaker, I believe the Enterprise Development and Industrial Revitalization Act of 1983 is a coherent and well-balanced approach to urban revitalization. As our country continues to adjust and mature as a service-based economy, the major elements in this system, small- and medium-sized businesses, will be able to adequately fulfill their vital role in the system. Further, our Nation's older urban centers and distressed areas will be saved from long-term economic deterioration.

The responsibility for funding the enterprise development efforts will be shared by government and nongovernment sources alike, reflecting the fact that complex economic issues facing us are shared problems. The proper infrastructure base must be available to encourage growth and expansion, and viable tax incentives are needed to improve internal cash flow generation. The problems of the displaced workers will improve as they once again become productive members of our country's work force.

My proposal is a realistic approach to the problems of business enterprises in distressed areas. I believe this act offers a viable solution to one of the most serious economic puzzles facing our Nation today—the revitalization of our distressed urban centers.●

STATEMENT OF LUIS GRANADOS, MANAGING DIRECTOR, THE EMPLOYEE STOCK OWNERSHIP ASSOCIATION

My name is Luis Granados. I am the managing director of The ESOP Association, the national nonprofit association of companies with Employee Stock Ownership Plans ["ESOPs"]. The position of our Association is that if tax assistance is to be directed to stimulate business enterprise, then Congress ought to be concerned with the ownership of that enterprise, and ought to encourage that ownership to be spread at least in part among its employees.

We agree wholeheartedly with the concept that the best way to help people in distressed areas is not to give them handouts, but to bring them into the mainstream of the private economy. Everything that is consumed must be produced. For people to consume more, they must produce more. But as the investment banker Louis Kelso has pointed out, production is no longer simply or even primarily a matter of working with your hands. Production today involves the effort of capital as much or more than the effort of labor. Enabling people to become more productive does not mean providing them solely with dead end jobs, but with access to the ownership of capital, the dominant and ever increasing factor of production.

Providing people with the ownership of capital is what the ESOP is all about. The ESOP is a unique combination of a technique of corporate finance with an employee benefit plan. It provides employees with stock in the companies where they work, without requiring them to dip into their own savings or even put themselves at risk. The ESOP is not pie in the sky. It is a concept that is working, and working well, in over 5,000 American businesses.

One of the reasons the ESOP works so well is that it eases the natural tension that arises between the providers of capital and providers of labor. In a typical enterprise, there is a sharp division between the interests of the owners and the interests of the workers, resulting in conflicts that undermine its vitality and growth. In an ESOP company, the owners and the workers are the same people, so everyone is on the same team, pulling together toward a common goal.

That kind of teamwork can make a big difference. The University of Michigan did a study that showed ESOP companies are 50 percent more profitable than similar sized companies in similar industries. The University of Iowa did a study that showed that while national productivity rates were declining by 3 percent in the late 1970's, the same rates among ESOP companies were rising by 3 percent. Our own members report the same phenomenon: 72 percent tell us the ESOP has improved their employees' motivation and productivity. The pride of ownership has a powerful effect on people. When given a piece of the action, when given a solid reason to care about the bottom line, workers do become more conscientious and begin to do a better job.

The teamwork fostered by an ESOP is especially important when trying to stimulate production in areas where over the years a great hostility has grown up against the private enterprise system. Not without some justification, many people in distressed areas view businessmen as the "bad guys" who can't be trusted and whose purpose is to exploit workers and consumers. Simply providing these people with low paying jobs when they can see the profits flowing elsewhere is not going to break this cycle of distrust. Providing them with a piece of the action is another matter. When your next door neighbor brings home a dividend check that represents his share of the company down the street's profits, that may well color your thinking about the social utility of that company down the street.

There are only three ways in which the enterprises to be fostered in the so-called "enterprise zones" can be owned. They can be owned by the government; they can be owned by a handful of individuals; or they can be broadly owned by average working people, such as the people who live and work in the zones. We think that Congress ought to express a preference for this third form of ownership, and that it ought to back up that preference explicitly in whatever statute it enacts. The enterprise zone bill reported by the Senate Finance Committee includes language citing expanding capital ownership as one of the areas which State and local governments might include in their applications for zone status. H.R. 1735, sponsored by Congressman Parren Mitchell, goes even further than the Senate bill by increasing the ESOP tax credit available to companies in enterprise zones and providing for tax-free rollover of gain on sales of stock to ESOPs in these areas. Either approach is far preferable to an attitude of "We don't care who owns it so long as it's there."

ESOPs are not a panacea. They are not going to solve all of America's economic problems, and they are not by themselves going to turn depressed inner city areas into utopias of cheerful workers accumulating huge capital estates. They are, however, a sensible way to organize a business, and are the best available way of changing the attitudes of those who feel frozen out of the system. We hope this Committee takes into account their proven record of success in whatever efforts it makes on behalf of the enterprise zone concept.

STATEMENT OF DONALD F. SAMMIS, CHAIRMAN, FOUNDATION FOR THE PRIVATE SECTOR

I am Donald F. Sammis, Chairman of the Board of the Foundation for the Private Sector. In the name of this organization, I also serve as Chairman—and conduct the day-to-day activities—of the National Coalition for Enterprise Zones. The Coalition consists of over 200 member organizations, and has a Board of Advisors of Presidents from the following organizations: National Association of Neighborhoods, American Gas Association, National Alliance of Business, National Conference of Black Mayors, Inc., American Retail Federation, National Alliance of Towns and Townships, National Urban Coalition, and U.S. Chamber of Commerce. On behalf of both the National Coalition for Enterprise Zones and Foundation for the Private Sector, I appreciate this opportunity to submit testimony into the written record in support of H.R. 1955, the Enterprise Zone Employment and Development Act of 1983.

The Enterprise Zone concept is a bold new approach to revitalize designated economically depressed areas. The old approach of pouring more and more tax dollars into government controlled programs has proven to be costly and ineffective. Instead of helping the blighted areas of our country regain their vitality, government sponsored programs have often not only been wasteful, but have sometimes even led to a deterioration of the area. Areas like the South Bronx are monuments to the failure of government to provide adequate solutions to the problems distressed areas face.

Enterprise Zones aim at reversing this trend. They seek to create a free-market environment in designated areas through tax incentives, reduced regulation, and community support that will stimulate commercial investments and community initiative.

While Enterprise Zone legislation has been bogged-down at the national level, a quiet revolution has been taking place at the grassroots level. States and localities early on recognized the potential benefits of the Enterprise Zone concept, and they have been quick to take legislative action. To date, twenty-one state legislatures have enacted some form of Enterprise Zone legislation. Of the states with such enabling legislation, programs are now operational in nine states. Recently, the Foundation for the Private Sector and Sabre Foundation conducted a survey (published by the Sabre Foundation) of the zones in these nine states. It is the first systematic attempt to assess zone performance. The findings of the survey cannot be overemphasized; they dispel the major objections to the Enterprise Zone proposal.

The survey examines three areas of Enterprise Zone performance: employment, business investment, and fiscal impacts.

EMPLOYMENT

Operational Enterprise Zones have had a significant impact on employment opportunities in distressed areas. Cumulatively, the zones are the beneficiaries of 20,271 jobs. According to officials administering local zone programs, business startups and expansions within zones have already generated 4,601 jobs. Another 4,085 jobs have been saved when businesses planning to move out of a depressed area had a change of mind after the Enterprise Zone was declared. (The saved companies—and so jobs—were typically among the largest employers in their area; moreover, several have subsequently expanded). Officials also report plans for an additional 8,477 hires by zone-based entrepreneurs, and estimate that 3,108 further jobs will be created by firms whose applications for zone operations are currently pending.

Jobs created or saved in Enterprise Zones have frequently proven significant for participating communities. In Norwalk, Connecticut, for example, the creation or saving of approximately 1,000 jobs in the past year represents a substantial addition to the 5,000 jobs that existed in the zone at the time of designation.

Moreover, results from a subsample of communities indicates that unemployed and disadvantage workers are benefiting from Enterprise Zones. Although few communities have instituted specific provisions to track the hiring practices of the zone-based firms, five communities have found that expanding firms have hired from 23.3 to 100 percent of their new workers from the ranks of the unemployed or disadvantaged. On average, the report surmises, these two categories account for approximately 30 percent of new zone hires.

BUSINESS INVESTMENT

Many state and local officials indicated that they initially feared Enterprise Zones would induce companies to relocate from existing sites in jurisdictions without the zone incentives. The survey found, however, very few relocations. The principal gains in employment have come from expansion of established firms and startups of small business.

There have been at least 160 startups (46 percent of the total zone projects) by individual enterprises in the operational enterprise zones since their activation. Examples of the new enterprise range from large high-technology manufacturers of electronics and sonar equipment to small lumber yards and printing shops. Although startup firms have been most evident in the Connecticut Enterprise zones, the largest example of a startup to date is under way in New Orleans, where SFE Technologies is building a 700 employee facility. Business startups occurred most commonly in the retail sector, followed by manufacturing and service industries. This pattern contrasts with that for business expansions, where the manufacturing sector has responded the most strongly.

The actual extent of new entrepreneurial activity may be somewhat greater than detected by the survey of zone officials. States such as Kansas and Florida have made attempts to lighten paperwork—and sometimes permit—requirements on zone-based companies, making it likely that the birth of small, new enterprises in some instances have not been recorded by officials monitoring the Enterprise Zone.

A total of 26 percent of Enterprise Zone business projects represented expansions of zone-based firms. This number is particularly significant in light of the poor investment climate of most zones prior to their designation. In some cases, zone-based companies changed their plan to move to adjacent communities as a direct result of zone incentives, and proceeded to expand their work forces within the zone. Expansions took place primarily in the manufacturing sector in urban zones, followed closely by retail stores.

Renovations of businesses constituted 28 percent of Enterprise Zone projects. The renovations appeared principally in those states and communities offering significant property tax abatement.

The most striking example of zone stimulus to renovation has occurred in Chicago. Spiegel Catalogue will undergo a $20,000,000 renovation after having considered leaving the area. Corporate executives reported that zone incentives for the renovation were among the three primary reasons for remaining in the Chicago area. The action will save 2,000 full-time jobs in the zone.

Finally, state and local officials overseeing the zone programs report that more than $450 million of private investment has been committed since activation of the incentives in these depressed areas. Capital has flowed into such projects as manufacturing facilities, retail stores, office buildings and home construction and remodeling, much of it in neighborhoods once believed too decayed to recover.

FISCAL IMPACT

The survey findings indicate that the Treasury Department substantially overestimated revenue loss from enactment of the prospective Federal zone legislation. In developing its estimates, Treasury made a number of assumptions about the characteristics of a typical Enterprise Zone. These assumptions were—of necessity—conjectures, as no zones existed at the time Treasury first did its work. Experience to date suggests that these guesses were unduly pessimistic.

The survey found that tax revenue loss is accompanied by reduced spending demands. State and local programs—which are approximately 20 percent as powerful in tax relief as the proposed Federal package—to date can claim to have generated or saved 20,271 jobs. A large share of the jobs created in the zones have gone to unemployed workers and residents, including the long term unemployed, in those cities tracking the hiring practices of firms. Although the zones have been designated in areas of lagging business activity, state Enterprise Zones so far have also been the sites of 160 startup businesses. Nonetheless, past estimates of Enterprise Zone tax revenue loss have overlooked the fiscal impact of self-sufficiency for newly-hired individuals who previously required unemployment compensation or transfer payments for support, and assumed that the zones would merely relocate business activty rather than stimulate new startups and expansions.

While the above is a bare outline of the activity in existing operational zones, it shows that enterprise Zones are an effective way in which to stimulate new economic activity. In establishing a "climate of opportunity" for businesses and residents alike, local and state zone supporters have shown the way to more effective national approaches to resolving pressing problems.

I urge the Committee on Ways and Means to act swiftly and favorably report out Enterprise Zone legislation to the floor of the House.

STATEMENT OF HON. NANCY L. JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Chairman Rostenkowski, members of the Committee: I am submitting this testimony to urge your support for a Federal Enterprise Zone program and to demonstrate that the urban enterprise zone concept is working in New Britain, Conn., the largest urban area of my district.

As you know, Connecticut was first to launch its own state-designed and funded Enterprise Zone program. Since the inception of this program the results are encouraging:

Statewide: 3,200 jobs created or retained; 1,300 of above are new jobs; $62 million in planned investment; and 126 projects.

In my home city of New Britain, the early results are also very positive:

New Britain, Conn.: 11 projects total; 1 industrial; 7 commercial/retail; 3 residential; and $14,187,950 in planned investment.

These activities include a new FINAST shopping center costing $4,000,000 and creating 250 jobs, a $1.5 million planned conversion of a vacant furniture store into a restaurant/office complex and 175 units of elderly housing creating 50 jobs, and two new construction projects covering 38,210 square feet (Expansion of a Pizzeria company and the Elihu Burritt School).

As demonstrated above, I am pleased to use New Britain as an example of the Enterprise Zone concept at work. In just nine months of operation, this concept is bringing new hope and revitalization to New Britain.

I would like to state my strong support for the Enterprise Zone Act of 1983 as a good way to stimulate economic development in distressed areas of our nation. The concept provides job creating investment incentives including property tax reductions, job training benefits and job grants, and low-interest venture and capital loans. Of particular importance to me is the provision that ties job creation incentives to the hiring of local residents, ensuring benefits and participation in the projects to local neighborhoods.

Thank you for this opportunity to submit this testimony. I urge the Committee to support a Federal Enterprise Zone program.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., November 15, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
Washington, D.C.

DEAR CHAIRMAN ROSTENKOWSKI: In conjunction with the testimony of Mayor Doug DeGood of Toledo, Ohio, and as a cosponsor of H.R. 1735, the Community Assistance and Revitalization Act, I would like to submit the following statement for the record.

We in Toledo are in a particularly advantageous position to comment on the pending Urban Enterprise Zone legislation before your Committee. The State of Ohio has already adopted its own Enterprise Zone legislation and the Warren-Sherman project in Toledo has been designated a zone under Ohio's program. While the package of tax incentives provided by the State has helped us in Toledo to begin revitalization in the Warren-Sherman area, greater assistance is essential if the goals of the legislation to attract new business, jobs, and opportunities for the area are ever to be realized.

Assistance in the form of companion federal Enterprise Zone legislation offers useful possibilities. Federal assistance will have a much greater effect on business location decisions and economic renewal prospects in zones like Warren-Sherman than do the currently available state and local tax incentives. I believe, however, the Administration's restricted proposal falls far short of what is required. In order for Enterprise Zones to contribute to the economic revival of depressed cities, a number of other provisions need to be included in the proposed legislation.

The Administration's initiative is the least acceptable of the Enterprise Zone alternatives before your committee. Both the Mitchell and Nowak proposals, for example, provide important equity expensing provisions which are critical in making available important up front capital for small businesses.

An Enterprise Zone program based entirely on tax incentives will have little more effect than providing relief at the margins regardless of the specific objectives of the program. Indeed, the problems of a zone are trivialized if we consider them only a function of tax and regulatory barriers. In order for Enterprise Zone legislation to be effective, it must be linked to a number of other efforts, as well.

Examples of necessary linkages include complementary housing and economic development initiatives, crime control, job training, and infrastructure repair. If the Warren-Sherman project does not succeed, it will be due to the lack of assistance in these significant areas. In addition, such an important undertaking requires a coordinated approach involving business and community leadership development from the affected areas themselves. The City of Toledo and the Toledo Economic Planning Council are to be complimented for their initial efforts to catalyze such activity. Thus, the overall level of assistance necessary to achieve the goals of the Enterprise Zone program throughout the nation cannot be achieved by relying on existing, uncoordinated programs at current funding levels. To think otherwise is to be unrealistic.

Mr. Chairman, I appreciate your holding these hearings. They constitute an important step in developing a federal enterprise zone proposal that will more effectively address the pressing economic development needs of our community.

Sincerely,

MARCY KAPTUR,
Member of Congress.

STATEMENT OF SARA L. BELL, ENTERPRISE ZONE COORDINATOR, COMMONWEALTH OF KENTUCKY

Chairman Rostenkowski and members of the committee, thank you for the opportunity to testify before this hearing on targeted tax incentives to distressed areas. My assumption is that this is a pseudonym for enterprise zones. Therefore, enterprise zones will be the subject of my remarks.

Kentucky was the fifth state to create enterprise zone legislation. We passed this legislation overwhelmingly, with but five dissenting votes. We regarded this legislation as a rare opportunity to not only increase employment and tax base through business development and expansion, but as a means of helping eradicate distress and waste in our inner cities and our towns.

Kentucky is both a rural and urban state. We have 49 counties which are part of Appalachia with unemployment rates reaching into the high twenties. Letcher County has an unemployment rate of 27.9 percent. Coal is the chief industry in this part of our state, and the coal industry hasn't been doing very well lately. Kentucky has its urban areas which have been hit just as hard by the tailspinning economy as any in the United States. Louisville, Ky., may not occur to you as a decaying industrial city, but let me tell you that Louisville lost more than 11,000 jobs in the last ten years. One would think things are fine when the manufacturing base includes General Electric, International Harvester and Ford along with distilleries and cigarette makers. Well, people didn't buy as many refrigerators and stoves, cars, and tractors, smoking and drinking habits changed so that Louisville found itself in the middle of an unemployment crisis. Louisville needed "retooling."

The Commonwealth of Kentucky took a positive approach to its economic problems. While our Revenue Department was announcing revenue shortfalls in the 100 million dollar range, the Kentucky Legislature was passing enterprise zone legislation, a commitment on the state's part to get things moving again. The Kentucky program sacrifices early revenues as business incentives. This has been a risk investment that is already beginning to pay off.

This enterprise zone legislation was the result of a year's work by a Commission appointed by the Governor and the Commerce Cabinet. The Commission drafted enabling legislation which addresses job creation and creates a total neighborhood concept. Distress criteria for an enterprise zone area is established at 1½ times the national average, plus a 10 pecent population decline or an extreme low income figure. I might note here that this criteria exceeds the requirements set forth in most of the proposed Federal enterprise zone bills that I have read.

Communities applying for Kentucky's enterprise zone program write their own program, outlining what they will be willing to do to make their zone work. We feel this "tailor made" aspect is one of the keys to our program's success.

A unique provision of Kentucky's enterprise zone program is that it encourages the creation of neighborhood enterprise association corporations. Because the Commission was anxious to encourage full support by residents of the zones, it embraced this idea of neighborhoods incorporating themselves and becoming involved in zone businesses. Similar programs may have been tried before, but the Commission felt that neighborhood ownership and control of certain projects would be an approach which could work. The city of Louisville is getting ready to find out. It is presently working out an agreement with the Sabre Foundation to fashion a workable model for the program.

Once an area is designated as a state enterprise zone, businesses which locate in this zone must contribute in order to benefit from being there. Businesses are required to hire 25 percent of their total work force from the unemployed or those on welfare, before becoming eligible for available tax incentives. These Kentucky revenue breaks include relief from sales tax on building materials and machinery, motor vehicle usage tax, and state income tax on interest payments, among others. They were included to help not only the large investor but the small entrepreneur just getting started. We believe most new jobs will be created by small businesses and that communities should no longer expect to be "saved" by a single large company locating there.

Where does Kentucky's enterprize zone program stand now? In June of this year, the Kentucky Enterprise Zone Authority designated two state enterprise zones. An urban zone in Louisville and a rural zone in Hickman. Both zones are succeeding. Louisville has attracted five new businesses for a total of more than 200 new jobs in a three-month period. Interest from the private sector is strong and several existing businesses are studying the possibility of expansion.

Hickman, our rural zone, makes up in spirit what it lacks in size. When this community of 3,000 population was told that its only railroad line would be closed, the town bought the railroad. That sizable accomplishment created 116 jobs by allowing this riverport community's single major company to expand its operation. this type of aggressiveness paired with state and local tax incentives has also attracted four new commercial businesses which have put 20 people to work. Three industrial prospects are looking at the Hickman zone and the city may get its first hardware store soon.

Kentucky has a strong economic development program exclusive of enterprise zones, but we feel that our enterprise zone program is the "icing on the cake." We are committed to the concept and we have proven it works. We hope that what is now a two-tiered commitment of local and state government incentives and benefits will become three-layered with the addition soon of a Federal Enterprise Zone program.

STATEMENT OF THE CITY OF LOS ANGELES

ENTERPRISE ZONE LEGISLATION

Mr. Chairman and Honorable Members, the city of Los Angeles is appreciative of the opportunity to express its position on this important issue.

The Los Angeles City Council on February 16, 1982, by unanimous vote, acted to support the enactment of Federal Enterprise Zone legislation. As a part of that action, the Council directed the City's Federal Legislative Representatives to seek amendments which we feel are necessary to strengthen this legislation. Those suggested changes and the rationale for each of them is as follows:

(1) Remove the present restriction on the Secretary of HUD to approve "up to 25 zones per year" and substitute the provision that "the Secretary of HUD will be authorized to approve a minimum of 25 zones each year * * *"

Rationale.—This change is a fundamental one necessary to indicate a reasonable possibility of success on the part of competing cities and counties. This is based on the fact that hundreds of local governments are likely to be eligible based (upon) the UDAG criteria.

(2) Clearly defined a size criterion for zones.

Rationale.—Currently there is no size criterion contained in the proposals to guide preparation of applications. There have been previous discussions on size related to square mile area and related to population figures. This amendment would propose a minimum and a maximum size by area and would provide for variance from the minimum and maximum area criteria under specified conditions to be established by the Secretary.

(3) Make the present tax incentive carry-over provisions, instead, directly refundable at the option of the taxpayer.

Rationale.—Unless the utilization of the Enterprise Zone concept is to be limited to large corporate entities, not likely to experience cash flow problems, the choice of the carryover or refund option will be an essential tool in attracting small and medium size businesses to the zones.

(4) Eliminate the 10 percent population decline criterion as a qualifiable condition.

Rationale.—The 10 percent population decline criterion was originally established in connection with Federal programs designed to cover much larger areas, in some cases, entire metropolitan areas and is not an appropriate criterion for Enterprise Zones. Additionally, depressed areas of cities tend to register increases in population because of the cost of housing, thus forcing the poor and unemployed to share housing * * * tenements * * * two or more families to a housing unit, etc.

(5) Add an additional incentive of a 5 percent tax bonus for employers who hire in excess of 25 percent of the workforce of a zone business from residents of the zone.

Rationale.—A past criticism of programs of this nature has been that too many of the new and better jobs, and thus the benefits of the program, go to employees from more affuent areas. In addition, the targeted area can realize a greater degree of physical upgrading in such areas as housing, reduction of crime and economic stability when is an incentive to hire from the targeted area.

(6) Extend the tax incentives proposed by the Administration to include lenders who grant loans within the zones and to extend similar tax incentives to insurance carriers who insure within the zones.

Rationale.—One of the major deterrents to investment in depressed inner-city areas is the relatively high insurance premium costs, if available at all, and the reluctance of financial institutions to lend in so-called high risk areas. To extend the tax incentives contained in the proposal to insurers and lenders, who are active in a given zone, will provide an added tool to make the plan workable.

(7) Limit the states participatory oversight to those areas of state regulatory authority and/or to those ares in which the state desires to contribute incentives to the zone. Also to request that the A-95 (clearing house) process, presently in place for Federal programs, be used and that state participation be limited to this process.

Rationale.—The potential for state dominance of the selection and administrative processes is a factor which could limit local participation and thus limit the success of Enterprise Zones. Even prior to the passage of the Federal act, there are four California (state) bill being considered, each proposing varying degrees of state regulation, oversight and state selection criteria.

In addition to the suggested amendments listed above, we would like to direct your attention to what we believe to be some other areas of concern to local government.

First, we are concerned that without adequate funding for other existing economic development and training programs, the Enterprise Zone program may be far less successful than desired. For example, programs like EDA's Public Works Grants could provide the infrastructure funds necessary for increased local economic activity; HUD's UDAG Grants could provide the necessary front-end assistance for smaller firms; and job training components could provide the training necessary for the involved businesses and the unemployed and underemployed in the area that are chosen.

Second, we believe that the Secretary of HUD should not be authorized to place more emphasis on local and state regulatory and tax reforms than on other selection criteria in the zone application review process.

Our preceding comments are meant to be constructive, and indicative of the seriousness with which we view this legislation. We are hopeful that Congress will enact a workable program for Enterprise Zones and if it does, be assured that the city will make every effort to participate in it. To this end, we have already taken steps to formulate specific proposals on at least two areas in the city that are excellent candidates for the program as initially conceived. We will work to refine these proposals as the Congress, the state and the Administration further define the concept.

Thank you sincerely for the opportunity of sharing with you our thoughts, our concerns and our recommendations on this important legislation.

CITY OF LOS ANGELES
CALIFORNIA

REX E. LAYTON
CITY CLERK

OFFICE OF
CITY CLERK
ROOM 395, CITY HALL
LOS ANGELES, CALIF. 90012
485-5705

TOM BRADLEY
MAYOR

WHEN MAKING INQUIRIES
RELATIVE TO THIS MATTER,
REFER TO FILE NO
81-3781

February 16, 1982

IMPLEMENTATION ENTERPRISE ZONES LEGISLATION IN THE CITY OF LOS ANGELES

I HEREBY CERTIFY that the attached report was adopted by the Los Angeles City Council at its meeting held February 16, 1982.

REX E. LAYTON, CITY CLERK

By
Deputy

mga
Attachment

File No.: 81-3781

TO THE COUNCIL OF THE
CITY OF LOS ANGELES

Your INTERGOVERNMENTAL RELATIONS and INDUSTRY AND ECONOMIC DEVELOPMENT COMMITTEES jointly reports as follows:

Your Committees jointly recommend that the City include in its Federal Legislative Program SUPPORT of Federal Enterprise Zone Legislation AND SEEK AMENDMENTS as recommended by the City Task Force and amended in Committee.

Council Motion (Flores-Lindsay) directed the Chief Legislative Analyst to be lead agency of a City Task Force to develop information, work toward early identification of City areas that would readily qualify as "Enterprise Zones" and to report monthly to the Industry and Economic Development Committee. The administration has recently released more specifics as to its "Enterprise Zone" proposal. The task force has reviewed that proposal and is making recommendations for the Committee to consider in developing a position on the needed implementation legislation.

During the 1980 legislative year several Federal legislative measures were introduced which would have created in federal statutes "Urban Jobs and Enterprise Zones". The measure introduced by Congressmen Jack Kemp and Robert Garcia of New York emerged as one vehicle on which several hearings have been held throughout the nation. However, legislation has not been enacted pending further input from the Administration.

From the series of hearings, a presidential task force was named and that task force reported its recommendations to the President in late December of 1981. In his State of the Union message on January 26, 1982, he indicated that the administration will ask Congress to pass Enterprise Zone Legislation during the coming session.

The basic elements to be included in the Administration's bill are:

(1) tax relief at the Federal, state, and local levels;

(2) regulatory relief at the Federal, state, and local levels;

(3) efforts to improve public services, including experimentation with private alternatives for those services;

(4) involvement in the program by private, local, neighborhood organizations.

These four elements should together provide incentives and opportunities in each of the following categories:

(1) incentives for employers to establish businesses and create jobs in the zone areas;

(2) incentives for suppliers of key commodities, such as loans and insurances, to supply such commodities to zone businesses;

(3) incentives for employees, particularly the currently poor and/or unemployed to obtain jobs within the zone areas;

(4) opportunities for zone residents and other disadvantaged individuals in the zone areas to participate in the economic success of the zones.

In addition to these elements, the Enterprise Zone program should be consistent with the Administration's other policies, such as Federalism and reduced Federal spending.

In keeping with its charge, the task force has met regularly and defined a two part course of action as a basis of its recommendation to you. The two are: 1) to recommend a City position on the pending Legislation and 2) to formulate a City application for Enterprise Zone designation at the earliest possible date after enactment of the Federal legislation.

The County of Los Angeles has also formed a task force charged with formulating an application for an Enterprise Zone in Los Angeles County. The County group has requested that there be joint meetings and has indicated support for a joint application to be filed on behalf of the City of Los Angeles and the County of Los Angeles. To date, one joint meeting has been held with the County.

The task force has developed some demographic information which will help to identify potential areas within the City of Los Angeles which would qualify for Enterprise Zone designation based on preliminary criteria similar to the Urban Development Assistance Grant (UDAG) criteria already in place.

The task force recommends that the City support Enterprise Zone Legislation as presented in the Administration's proposal, but to seek amendments to do the following:

A. Extend the tax incentives proposed by the Administration to include lenders who grant loans within the zones and to extend similar tax incentives to insurance carriers who insure within the zone.

B. Limit the states participatory oversight to those areas of State regulatory authority and/or to those areas in which the State desires to contribute incentives to the Zone. Also to request that the A 95 (clearing house) process presently in place for Federal programs be used and that State participation be limited to this process.

C. Remove the presently proposed discretion of the Secretary of HUD to approve "up to 25 zones per year" and substitute the provision that "The Secretary of HUD will be authorized to approve a minimum of 25 zones each year..."

D. Make the present tax incentive carry over provisions instead, directly refundable at the option of the taxpayer.

E. Clearly define a size criteria for zones.

F. Eliminate the 10% population decline criteria as a qualification condition.

G. Add an additional incentive of a 5% tax bonus for employees who hire in excess of 25% of the workforce of a Zone Business from residents of the Zone.

A copy of the Administration's Proposal is attached for your review.

Respectfully submitted,

Industry & Ecomomic Development Committee

Intergovernmental Relations Committee

STATEMENT OF HON. ROBERT H. MICHEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Chairman and Members of the Committee, I am pleased to be able to offer this statement in support of H.R. 1955, "The Enterprise Zone Employment and Development Act of 1983."

I have carefully followed the development and refinement of the Enterprise Zone concept for over three years now and I believe that the provisions contained in H.R. 1955 represent a positive and much needed approach to help revitalize our distressed urban and rural areas throughout the country.

The tax incentives and regulatory relief provisions will not only help these areas to revitalize themselves, but will also create jobs, particularly for disadvantaged workers. Mr. Chairman, this Congress says that it is dedicated to putting American back to work again, and I want to say to you today that we could further that objective by enacting this important legislation now.

The legislation has broad bipartisan support. There are now 243 members of the House of Representatives that are cosponsoring it. This includes 150 Republicans and 93 Democrats. I should further note that a majority of the members of your Committee are co-sponsors.

Should Congress fail to act on this legislation soon, this failure will be major disappointment to the 20 states that have already enacted and are implementing their own state enterprise zone programs.

I am pleased to note that my own state of Illinois is among those 20 states. Illinois has designated eight Enterprise Zones in its first round of competition and a second round is underway. Of special interest to you Mr. Chairman, is that your city of Chicago has already benefitted from this effort. Two enterprise zones have been established in Chicago, and the resulting incentives have been instrumental in Speigel catalog investing $20 million to renovate its facilities and saving 1,000 jobs.

In Decatur, because of these same incentives, Sears, Roebuck and Company cancelled its plans to move its downtown store to the suburbs and decided instead to invest $3 million in renovation, resulting in the retention of 150 jobs.

So you can see the positive results from state and local activities. Many states view the Federal incentives as an essential complement to their own efforts. I hope you will agree with me that now is the time to try this fresh approach to revitalize our distressed areas and to create jobs.

I look forward to working with you in moving this legislation to the House floor so that the Federal "Enterprise Zone Employment and Development Act of 1983" can be enacted into law.

EXECUTIVE OFFICE,
STATE OF MISSOURI,
Jefferson City, November 21, 1983.

Hon. DANIEL ROSTENKOWSKI,
Chairman, House Ways and Means Committee, Washington, D.C.

DEAR CHAIRMAN ROSTENKOWSKI: In 1982, the Missouri General Assembly, at my request, adopted a comprehensive package of economic development legislation to help put Missourians back to work. A key element was the Missouri Enterprise Zone Act. This measure was sponsored by Representative Alan Wheat, now Congressman from the Fifth District of Missouri. I understand the House Ways and Means Committee is now considering federal enterprise zone legislation; you may find helpful Missouri's approach and experience with enterprise zones, and we urge you to enact a compatible package of federal incentives to revitalize economically distressed areas.

The Missouri program for enterprise zones represents a partnership among state and local governments and business. In seeking designation of an enterprise zone, local governments must agree to abate a minimum of fifty percent of local property taxes on new improvements in the zone for at least ten years. Local authorities must present plans for providing adequate police protection within the enterprise zone, and they must develop a process for individual businesses to obtain waivers from local regulations which inhibit economic development.

The state offers a full package of tax incentives to encourage location and expansion of businesses in enterprise zones. Tax credits up to $1,200 for each new employee hired and up to $400 for training each employee who is a zone resident or is considered unemployable are available to zone businesses. If thirty percent of a business' employees are zone residents or are considered unemployable, the business is eligible for additional investment tax credits and exemptions from state income taxation of up to one-half the Missouri taxable income earned within a zone.

Missouri has targeted the areas of greatest need for enterprise zone benefits. Each zone is characterized by pervasive poverty and unemployment. Minimum requirements for zone eligibility as originally approved were unduly restrictive. These criteria were amended in 1983 to allow more areas to qualify. Zones must be characterized by a level of unemployment which exceeds one and one-half the state average over the last twelve months. Additionally, at least 65 percent of residents living in a proposed zone must have incomes below 80 percent of the state's median income.

In August, the state designated Missouri's first three enterprise zones in the St. Louis midtown area, in the City of Macon and in Washington County. The unemployment rate in each of these three areas exceeds twenty percent. Initial investment in the first three Missouri enterprise zones is expected to reach nearly eleven million dollars. New and expanding businesses in the zones will add nearly eight hundred jobs in the areas of greatest need. One company provided fifty new jobs immediately and plans to employ another one-hundred fifty to two-hundred workers within the next two years.

The Department of Consumer Affairs, Regulations and Licensing is now reviewing petitions for zone designation in five additional cities and one county. Our Enterprise Zone Act allows us to designate a total of twenty-five zones in the first three years of our program, so the initial investment and job creation will increase many times in these first years of operation.

As demonstrated by our experience with Missouri's first enterprise zones, this program nutures new industry and creates jobs in economically distressed areas. I am proud that Missouri has established an enterprise zone program and I hope the Congress will approve a program to add federal incentives to attract new jobs to economically distressed areas throughout the United States.

I hope my brief description and the enclosed materials regarding Missouri's Enterprise Zone Program will assist your review of federal legislation. You and the members of your committee are, of course, always welcome to visit Missouri to see our Enterprise Zone Program in action.

Thank you for the opportunity to share Missouri's approach to this exciting initiative, and best wishes in your deliberations.

Sincerely,

CHRISTOPHER S. BOND, *Governor.*

Enclosures.

Missouri… the Profit Center

Division of Community and
Economic Development
P.O. Box 118
Jefferson City, Missouri 65102
314/751-4849

ENTERPRISE ZONE PROGRAM

In April 1982, Missouri became one of the first states to authorize the establishment of enterprise zones. Missouri's enterprise zone law provides a comprehensive program of incentives for new business development, including tax credits and exemptions, and the waiver of burdensome regulations.

Missouri's enterprise zone program; however, offers more than a tax incentive package. Under the state enterprise zone program, the infusion of new business development will be accompanied by improved community planning and citizen involvement to build the broad-based community support that business and industry need to prosper.

Beginning in 1983, the Missouri Department of Consumer Affairs, Regulation and Licensing will designate the state's first enterprise zones. The zones will generally consist of two or more census tracts in SMSA's or multiple enumeration districts in the state's rural areas.

Qualifications:

Tracts or enumeration districts must meet the following criteria to be designated as an enterprise zone:

1. The area is one of pervasive poverty, unemployment, and general distress;
2. The area is located wholly within an area which meets the requirements for federal assistance under section 119 of the Housing and Community Development Act of 1974, as amended;
3. At least 65% of the residents living in the area have incomes below 80 percent of the median income of all residents within the state of Missouri according to the last decennial census or other appropriate source as approved by the director.
4. The resident population of the area must be at least four thousand, but not more than thirty-two thousand at the time of designation as an enterprise zone if the area lies within a standard metropolitan statistical area, as established by the United States Census Bureau; or if the area does not lie within a standard metropolitan statistical area, resident population of the area at the time of designation must be at least one thousand, but not more than twenty thousand inhabitants. If the population of the jurisdiction of the governing authority does not meet the minimum population requirements set forth in this subdivision, the population of the area proposed for enterprise zone designation must be at least fifty percent of the population of the said jurisdiction provided, however, no enterprise zone shall be created which consists of the total area within the political boundaries of a county;
5. The level of unemployment of persons within the area exceeds one and one-half times the average rate of unemployment for the state of Missouri over the previous 12 months, or the percentage of area residents employed on a full-time basis is less than 50 percent of the statewide percentage of residents employed on a full-time basis.

What Enterprise Zones Offer Businesses:

Missouri's enterprise zone law provides a variety of tax credits, exemptions and other incentives to businesses that locate in designated enterprise zones. Firms locating in the zone would be eligible for:

* 1. an investment tax credit of ten percent of the first $10,000 in investment, five percent of the next $90,000 and two percent of the remaining qualifying investment;

2. up to a $1,200 tax credit for each new employee hired;

3. up to a $400 employee training credit for each new employee that is a resident of the zone or is considered unemployable;

*4. up to half of the Missouri taxable income earned by a business within a zone would be exempt from state income taxation for up to fifteen (15) years;

5. new improvements would receive a minimum 50% local abatement of Ad Valorem taxes for at least 10 years.

**To receive the benefits (numbers 1 and 4) 30% of an enterprise zone firm's employees must be residents of the zone or be considered "unemployable."*

THE ENTERPRISE ZONE ACT

Guidelines for Designation and Administration[1]

I. Definitions:

(A) "Director" - the director of the Department of Consumer Affairs, Regulation and Licensing. (C.A.R.L.);

(B) "Division" - the Division of Community and Economic Development (C.E.D.) of the Department of Consumer Affairs, Regulation and Licensing;

(C) "Governing Authority" - the body holding primary legislative authority over a county or incorporated municipality;

(D) "Business" - a sole proprietorship; a corporation described in sections 143.441 or 143.471; or a partnership;

(E) "Revenue Producing Facility" is one which sells any product and/or is engaged in the lease or rental of residential property to low and moderate income (L.M.I.) persons. (L.M.I. figures, as defined by H.U.D., can be obtained from the Enterprise Zone Program.)

(F) "Facility" - any commercial venture located within the enterprise zone, including the land on which the facility is located and all machinery, equipment and other real and depreciable tangible personal property purchased exclusively for use at and located at or within such facility and used in connection with the operation of such facility.

II. Minimum Criteria:

(A) The governing authority of a county or an incorporated municipality must meet the following minimum standards in order to petition for designation as an Enterprise Zone:

1. The area is one of pervasive poverty, unemployment, and general distress.
2. The area has been designated eligible for an Urban Development Action Grant.
3. At least 65% of the residents (using household figures) have incomes below 80% of the statewide median household income according to the last decennial census. Currently (FY 83), this figure is $12,465.00 per year.
4. Population: a) within SMSA 4,000 minimum - 32,000 maximum; or b) non-SMSA 1,000 minimum - 20,000 maximum; or c) if the above is not applicable the zone must consist of at least 50% of the jurisdiction. No enterprise zone shall be created which consists of the total area within the political boundaries of a county.
5. Unemployment: a) exceeds 1.5 times the state average over the previous twelve months; or b) residents employed full-time is less than 50% of the state average percent of those employed on a full-time basis.

(B) The governing authority must hold a public hearing.

1. Notice of the hearing shall include the time, location, date and purpose.
2. Notice shall be sent at least 30 days prior to the hearing to the director of the Department of Consumer Affairs, Regulation and Licensing, Jefferson City, Missouri 65101.
3. Notice shall be published in the local newspaper at least 20 days prior to the hearing, but not more than 30 days prior. An affidavit certifying publication of said notice shall be sent to the director.
4. The director, or his designee, shall attend the hearing.

(C) The governing authority may then file an application[2] for designation which shall include:

1. a description of physical, social, and economic blight;
2. a plan to provide adequate police protection. This may include self-help programs such as "Neighborhood Block Watch," "Partners Against Crime Together," etc.
3. a specific process for individual businesses to obtain waivers from local regulations, ordinances, and orders which inhibit economic development within the proposed zone. These waivers shall not pose any threat to the health and safety of the employees or residents of the zone.
4. a description of specific local efforts to provide additional economic development incentives, such as improved fire protection, guaranteed insurance or loan programs, etc. In general, list the development objectives that the locality hopes to achieve through the Missouri Enterprise Zone Program. These objectives should be specific and qualifiable.

5. a plan to provide resources (e.g., technical assistance, information network, etc.) to assist residents in participating in the development process through self-help efforts and in improving upon potentially negative effects of designation.

6. a description of projected positive and negative effects of designation. For example, such effects may include, but are not limited to: a) major investment opportunities; b) summarize major barriers impeding the achievement of development objectives; c) describe the projected impact of any local incentives discussed in #4 above or investment in the proposed enterprise zone. Indicate specifically how each proposed action will help offset investment barriers; and d) discuss the effect on neighborhoods and community cohesiveness.

7. a plan to provide relocation assistance to dislocated persons or businesses. The plan must include:

   a. a description of the need of the dislocated persons or businesses for relocation assistance;

   b. technical assistance in terms of relocation assistance information. This should include guidance to state and federal programs. (Assistance under the Uniform Relocation and Real Property Acquisition Act, 42, U.S.C. Section 4601, et seq., may be used by the governing authority to meet this requirement.)

III. Summary of Tax Incentives - Benefits

(A) Exemption from assessment and at least 50% local abatement of Ad Valorem taxes on **new improvements** must be allowed for the first ten years and not more than 25 years after designation.

(B) 50% exemption for Missouri taxable income. In order to estimate the income eligible for 50% exemption, use the following:[3]

$y = (b/c)$

$x = a \times y$

$y =$ Percentage of wages

$x =$ Amount exempt

$a =$ Taxable income

$b =$ Wages paid in zone

$c =$ Wages paid in Missouri for previous year

(C) $400 credit per employee employed within the zone.

(D) $100 credit for each quarter the employee is a resident of the zone.

(E) $100 credit for each quarter the employee, when at the time of employment, met the criteria under 135.240, RSMo 1982 of the Enterprise Zone Act, i.e., unemployable, difficult to employ, has exhausted unemployment benefits and remained unemployed for 3 months or more, or was eligible for aid to families with dependent children or general relief benefits.

(F) New business facility investment credit:

1. 10% for first $10,000;
2. 5% of the next $90,000;
3. 2% of remaining investments.

(G) Existing Business Facility: The credits listed above are available to an existing facility for application to an expansion or improvement (the expansion or improvement is considered as a separate eligible facility), if the investment exceeds one million dollars or if the expansion or improvement is 25% of the investment in the original facility prior to expansion. The facility may also qualify if the investment is twice the net annual rental rate, if leased by the taxpayer, and otherwise meets the qualification requirements necessary for credits.

(H) The amount of credits allowed for new employees and investments is applicable to the full extent of a firm's tax liability.

(I) Training: A one-time credit of up to $400 for training expenses not covered by existing programs, e.g., CETA, is available for each employee who is a resident of the zone or meets the criteria set forth in Section 135.240, RSMo 1982, (See #5 above) of the Enterprise Zone Act.

(J) Any business as defined in the Act[4] may use a trial period of nine weeks before any employee, meeting Section 135.240, RSMo 1982 criteria, may draw on his/her unemployment fund. (See #5 above for definition of 135.240, RSMo 1982.)

(K) Time Limits: The credits and exemptions allowed under Section 135, RSMo 1982, shall be granted for a period of ten years following designation and/or commencement of business, whichever is later, provided that all such credits and exemptions shall be removed not later than fifteen years after such designation.

IV. Requirements for Benefits Eligibility

(A) In order to receive the investment credit [III(F)] or the 50% corporate income tax exemption [III(B)], the business must certify to the Department of Revenue that:

1. at least 30% of persons employed meet Section 135.240, RSMo 1982, criteria; or

2. are residents of the zone or some combination thereof.

(B) The remaining tax benefits contained in section III above are available to any qualified business within the zone boundaries.

(C) A waiver or reduction of the above requirement may be granted by the director of the Department of Consumer Affairs, Regulation and Licensing (C.A.R.L.) for up to 18 months for the following businesses:

1. Those who employ ten or less FTE's.[5]

2. Those who employ eleven to twenty FTE's.

This is limited to a single occasion.

V. Overpayment of Income Tax

(A) Credits earned by a newly established business within an enterprise zone which exceed total income tax liability shall be considered an overpayment and shall be refundable to the taxpayer as otherwise provided by law.

(B) The provision for overpayment is available only for the first two consecutive years.

(C) The portion considered an overpayment is limited to 50% or $50,000, whichever is less, in the first year and 25% or $25,000, whichever is less, in the second year.

(D) The overpayment of the income tax for the first year shall not be refunded to the taxpayer until the third taxable year of operation by the business and the overpayment of the income tax for the second year shall not be refunded to the taxpayer until the fourth taxable year of operation by the business.

VI. Rules and Regulations

(A) The director of C.A.R.L. may issue rules and regulations regarding qualifications for designation.

(B) The director of the Department of Revenue may issue rules and regulations for the reporting and calculation of the credits.

(C) The issuing of rules and regulations is subject to Section 536.021, RSMo 1982.

(D) The joint committee on administrative rules may suspend any rule or portion thereof if it is found to be inconsistent with the authorizing statute.

(E) The general assembly may reinstate such rules with the governor's approval.

VII. Displacement Reimbursement

The owner-occupant who is displaced is eligible for the following, subject to the criteria set forth in Section 135.255, RSMo 1982 of the Enterprise Zone Act:

(A) Reimbursement for up to $500 in moving expenses;

1. he/she may elect to be moved by a licensed, bonded moving service; or

2. he/she may elect to move himself/herself.

(B) Reimbursement of up to $200 for utility connection costs and incidential expenses;

(C) The amount, which when added to the acquisition cost of the dwelling condemned, equals the reasonable cost of comparable replacement dwelling in terms of size, condition, and accessibility to services, facilities and employment and is available without discrimination of any form.

(D) The amount, if any, for increased interest costs.

(E) The amount, if any, for increased monthly payments required due to the loss of government subsidies including, but not limited to Section 235 of Title 24, Code of Federal Regulations. This amount shall be discounted to present value at a rate of 5.5%. Payment will be made not later than one year after said person moves from the acquired dwelling.

(F) The replacement dwelling must be "decent, safe and sanitary." This is to be determined by B.O.C.A. or equivalent.

(G) No payment to any displaced person may exceed $10,000.

VIII. An urban development corporation shall operate according to the criteria set forth by Section 353.060, RSMo 1982 of the Enterprise Zone Act.

[1] The "Guidelines" are strictly a summary of section 135.200, RSMo 1982. For a more complete analysis, contact the Division.

[2] The Division will supply the governing authority with an application form

[3] This formula is provided for illustrative purposes only.

[4] The Act for the purpose of this Document refers to "The Enterprise Zone Act."

[5] FTE - full time employee

STATEMENT OF WILLIAM H. KOLBERG, NATIONAL ALLIANCE OF BUSINESS

The National Alliance of Business is pleased to submit this statement on enterprise zone legislation to the House Committee on Ways and Means. We applaud the Committee for its recognition of the important role enterprise zone legislation can play in helping economically declining areas of the country.

The National Alliance of Business is an organization of business people who have nearly fifteen years of experience helping poor, unemployed youth and adults obtain productive jobs in business and industry. Each Administration since NAB's founding has turned to the Alliance to continue its lead in developing and maintaining the business community commitment to resolving the employment problems of the economically disadvantaged.

The Alliance's focus on breaking the bonds of poverty by building working partnerships between government, business, labor, education and community groups to create training and job opportunities for the needy remains unchanged since 1968.

Over the past two years, NAB and its Board of Directors has studied the Enterprise Zone proposal and believe the concept is an economically sound one. Though not a panacea, it may well present a major economic opportunity for the disadvantaged and the unemployed close to their homes.

After reaching a high of 10.8 percent last December—the highest in more than 40 years—unemployment has gradually receded to a rate of 8.8 percent in October 1983. Nevertheless, this lower rate of unemployment still represents almost 10 million people who are without jobs. NAB believes this figure will continue to edge downward, especially in light of the retraining opportunities that will now be encouraged through the Job Training Partnership Act [JTPA] which went into effect on October 1, 1983. This public/private partnership emphasizes business involvement in our Nation's employment and training system, and development of job placement opportunities in the private sector for displaced and economically disadvantaged workers.

The Job Training Partnership Act, however, is not the complete answer to our nation's unemployment problem. In testimony before the Joint Economic Committee last month, Lawrence H. Summers, Professor of Economics at Harvard University, stated that, "without increasing the supply of jobs, no amount of assistance to workers can reduce unemployment. Therefore the appropriate objective of new Federal employment initiatives should be to stimulate private sector job creation."

It has been conservatively estimated that more than 3 million disadvantaged people are currently unemployed—most living within the confines of our Nation's inner cities. In addition to high unemployment, our cities and towns are faced with urban decay, slow economic growth and constrained budgets. Faced with this dilemma, there seems little hope for the majority of the disadvantaged to become productive, self-supporting citizens.

Many people believe that the expansion of existing business, and attracting of new ones is the key to revitalizing our decaying or abandoned urban areas. Furthermore, they believe that our Nation's urban areas offer the most potential for small business which studies show account for 80 percent of the new jobs created in this country.

The tax and regulatory benefits offered through the creation of enterprise zones in our urban areas will result in an environment that promotes the development and expansion of small businesses. This, in turn, will result in new jobs and more opportunities for the disadvantaged and unemployed close to home.

The experience of this past summer, the first year this new 85 percent tax credit for hiring economically disadvantaged youth was in place, gave an important indication that adequate tax incentives for employers can work. For example, Standard Oil in Chicago was able to hire six times as many students as they had budgeted for this summer. Nationwide, almost 14 thousand youths were hired as a result of this tax credit. These incentives, like the ones proposed in the enterprise zone legislation, should be given a genuine chance.

Not all jobs created in an enterprise zone will be available to the disadvantaged because of their lack of skills. To help offset these inadequacies, the employment and training programs offered under the new Job Training Partnership Act can and should be tied into the jobs created in enterprise zones. Existing evidence seems to indicate that this action will occur. For example, the enterprise zone program in Norwalk, Conn., provides tax abatements to companies if 30 percent of their employees who are residents of the city are eligible for aid under JTPA.

An advantage often overlooked is that the people who are hired as a result of the incentives to employers would no longer have to rely on government subsidy programs. Faced with an ever increasing cost of maintaining these programs, a decrease in the number of recipients could control or even reduce the Federal Government's financial burden. The tax credit would however, result in a loss of tax revenue, but only to the extent that jobs are created, and even this loss would ultimately be offset by a gain in tax revenues at all levels from the spending of disposable income not previously available.

Like the Job Training Partnership Act, the enterprise zone proposal as contained in H.R. 1955 is a partnership effort which offers a viable, long-term approach to more fully utilizing a community's resources, tailored to local conditions and opportunities. The success of enterprise zones will depend on the degree of commitment and involvement of all members in the partnership, including the addition of Federal incentives to reinforce the program. As many as 21 states are demonstrating or ready to demonstrate that the concept can work. We encourage the committee to act favorably and give them that opportunity.

STATEMENT OF HARRY PRYDE, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS [NAHB]

Mr. Chairman and members of the committee, my name is Harry Pryde and I am a homebuilder and developer from Seattle, Wash. I am submitting this statement on behalf of the more than 117,000 members of the National Association of Home Builders [NAHB]. NAHB is a trade association of the nation's homebuilding industry of which I am president. I appreciate the opportunity to present NAHB's views on enterprise zones.

Housing production is a key ingredient to assure a workable enterprise zone concept. I would like to first discuss the status of rental housing in our nation because it is fundamental to our support for sufficient tax and regulatory incentives for the construction or rehabilitation of housing in enterprise zones.

RENTAL HOUSING

Mr. Chairman, even without the disastrous effects of high interest rates in 1981 and 1982 on the housing industry, the level of activity in multifamily rental construction would still be extremely low. This situation has its most significant impact on urban areas with high population densities. Multifamily rental housing starts declined from 800,000 in 1972 to 260,000 in 1982, yet the demand for rental housing is still strong. Equally troubling is the low level of privately financed multifamily rental construction. In 1982, of the 260,000 multifamily rental units built, only 186,000 were privately financed.

Mr. Chairman, because of the decaying conditions of many urban areas, the existence of rent control and restrictions on condominium conversions, multifamily rental construction does not represent a viable investment in many areas of the country. The affordable rental housing situation in the United States is of crisis proportion. Affordable rental units are unavailable in major urban areas.

Although the Economic Recovery Tax Act of 1981 improved the climate for real estate investment, the comparative benefits for residential construction vis-a-vis other investments do not sufficiently encourage rental housing production and rehabilitation. In fact, a 1981 study by the Library of Congress indicates that the effective tax rate on apartment buildings is higher than for almost any other type of asset. Furthermore, a 1982 analysis by the Department of Treasury reveals that real estate structures continue to have less overall tax deductions than other assets because they are not permitted the investment tax credit. There are tax incentives, which will be discussed later in my statement, that can assist residential multifamily construction.

In addition to relatively high interest rates and the lack of adequate tax incentives, the planning, zoning and total regulatory climate at the local level also inhibits construction in most areas. NAHB has testified in the past about the cost and time delay caused by government overregulation. A 1981 study conducted by the Council on Development Choices for the 1980's, "The Affordable Community Adapting Today's Communities to Tomorrow's Needs," concluded that significant changes in state and local regulations are necessary to ensure affordable housing. Zoning, density, land use and site design regulations must be relaxed by states and localities to encourage housing development. In fact, under a program administered by the Department of Housing and Urban Development, the Joint Venture for Affordable Housing, three projects completed under local regulatory waivers have cost savings of 11 to 23 percent in comparison to projects built under current local regulations within the same jurisdictions.

A commitment from all levels of government and the private sector, in both the areas of tax incentives and deregulation, is needed to improve the climate for investment in multifamily rental construction.

ENTERPRISE ZONES

NAHB believes the enterprise zone concept is a positive approach to promote economic revitalization and job certain through tax incentives and deregulation.

The enterprise zone legislation being debated by the Senate Finance Committee contains many of the critical philosophical elements necessary to make the enterprise zone concept work, although some of the tax and deregulation elements must be strengthened. But we believe that most of all, an essential ingredient to make enterprize zones successful is the inclusion of sufficient incentives for the production of housing.

The purpose of enterprise zones is to promote economic growth, through the expansion of industry, in our most depressed areas. The jobs that will be created, however, will increase the demand for affordable housing in these areas. Most of the available jobs will be lower paying, reguiring reasonably priced rental housing and homeownership opportunities. I have already addressed some of the obstacles facing this type of construction.

In the past couple of years, this Administration and Congress have severely restricted government assistance for low and moderate income housing. In the absence of this assistance, it is imperative that enterprise zone legislation provide sufficent tax incentives, and promote deregulation, to encourage long-term financing commitments for housing construction.

TAX INCENTIVES

To this extent, NAHB strongly endorses the investment tax credit for housing construction currently included in the legislation being discussed. The 10 percent nonrefundable investment tax credit for the construction or rehabilitation of commercial, industrial or rental housing structures within a zone, included in the Enterprise Zone Employment and Development Act of 1983, H.R. 1955, will help to provide an immediate incentive to construct housing in an enterprise zone. The investment tax credit provides a sound business reason to build in an area which would otherwide not attract this type of investment. H.R. 1955, therefore, is preferable to other proposals which limit the credit to low income housing.

NAHB also supports additional tax incentives included in the enterprise zone legislation being considered by the Committee that will promote real estate investment in areas of revitalization:

An exclusion from capital gains for real property sold within an enterprise zone as provided in H.R. 1955. A special rule which would permit deferral of capital gains for investment and reinvestment in low income housing within a zone would also be helpful (H.R. 1735).

A 30 percent tax credit for the rehabilitation of 40-year old structures and a 25 percent credit for the rehabilitation of 30-year old structures used for low-income housing provided at least $10,000 per unit is spent on the rehabilitation (H.R. 1735).

An increase in the residential energy tax credit from 15 percent to 40 percent, for installing energy conservation or renewable energy equipment in area residences as well as an extension of the credit for units in zones beyond its current expiration date of December 31, 1985 (H.R. 1735).

The continued availablity of small issue Industrial Development bonds [IDB's] in enterprise zones, and the restoration of accelerated cost recovery for IDB financed property (H.R. 1955).

Furthermore, the Committee may want to consider some additional tax incentives for multifamily construction. Perhaps such incentives could be incorporated into enterprise zone proposals to make real estate an attractive investment compared to other less risky alternatives such as stocks and bonds:

Shortening of the straight line depreciation period for housing construction and substantial rehabilitation from 15 years to 8 years.

Adjustment of the maximum per unit deductibililty level for depreciation on the rehabilitation of low income housing under Section 167(k)(2)(A) of the Internal Revenue Code from $20,000 per unit to $40,000 per unit.

Classify housing construction for low and moderate income families as a business venture to avoid the "hobby loss" provision under Section 183 of the IRS Code to ensure the depreciation of this property.

A special investment tax credit for operating cost to automatically kick-in after five years of occupancy of qualified low-income buildings. This provision is included in legislation introduced by Rep. Stewart McKinney, the Residential Rental Housing Tax Incentive Act of 1983, H.R. 637.

DEREGULATION

Economic revitalization in enterprise zones will not be spurred by tax relief alone. Deregulation is equally important. States and localities must be encouraged, as under the proposed bills, to provide regulatory relief. Relaxation of the regulatory burden must be a critical factor in the award of an enterprise zone. Localities should be encouraged to waive local zoning and planning requirements and licensing procedures. Non-imposition of rent regulation or condominium conversion restrictions and other regulations deterimental to housing production should also be an important factor in enterprise zone designation.

With respect to employment incentives, Congress should consider waiving or at least relaxing the Federal minimum wage requirements in enterprise zones. Although not included in the legislation being considered, this provision seems essential to encourage competitive business activity and prevent the wholesale export of jobs.

The Enterprise Zone Employment and Development Act of 1983 allows state and local governments to jointly apply for the modification of nonstatutory Federal regulations if this is in the public interest and would not present a risk to health, safety or the environment. NAHB believes that this is an important step to provide for economic revitalization in enterprise zones.

OTHER RECOMMENDATIONS

New incentives to promote major rehabilitation and housing production in zones must also be coordinated with existing housing and community development programs. H.R. 1735 directs the Secretary of HUD to promote coordination of housing, community development, financial assistance and employment programs. The bill also requires that Federal aid be directed to revitalization areas. H.R. 1955 encourages state and local governments to provide Community Development Block Grant [CDBG] Urban Development Action Grant [UDAG] and revenue sharing funds for projects which contribute to economic development within a zone. These provisions should not only be retained but can be strengthened by providing that an appropriate percentage of CDBG, or new rental housing production funds be targeted to enterprise zones.

In addition, NAHB believes that Congress should consider not limiting the number of enterprise zones that can be created. This decision should be left to the discretion of the Secretary of HUD. The program should begin as a demonstration, and if it proves successful, the number of zones should not be limited by law. If on the other hand, the concept proves unworkable, then we would not be committed to unnecessarily large numbers of zones.

Finally, in order to minimize political influence in the nomination of zones, H.R. 1735 permits the local government to nominate an area for revitalization designation if, within 60 days after it requests the state, the state fails to nominate the area. This provision is essential to minimize political influence in zone designation.

CONCLUSION

Mr. Chairman, NAHB supports the enterprise zone concept as an undertaking that can work by incorporating the suggestions we have made. Along with others interested in enterprise zones, we hope the Congress will lend its support to a workable approach that the private sector can endorse.

Clearly, the purpose of enterprise zones is to redevelop and revitalize depressed areas by generating new jobs and economic activity. A successful enterprise zone, including tax and regulatory incentives for housing production, will provide a boost to the growth of our depressed areas.

National Association of Housing and
Redevelopment Officials,
Washington, D.C., November 23, 1983.

Hon. Dan Rostenkowski,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

Dear Mr. Chairman: The National Association of Housing and Redevelopment Officials [NAHRO] which represents 2,000 local housing and community development agencies and 5,000 individual members would like to comment on the enterprise zone concepts that have been referred to your Committee. NAHRO will be celebrating its 50th year in 1984 as an organization of professionals committed to revitalization of our Nation's urban areas. We know from past and current experience the complexity of trying to revitalize severely distressed areas. We hope that the expertise we have gained over the years will be of help to you.

Our experience with the community development block grant, urban development action grant and urban renewal programs, has shown us that serious deficiencies in infrastructure and neighborhood blight are detrimental to business prosperity. Lack of investment capital impedes new business development. Lack of decent housing and sound neighborhoods affect the labor supply. These are deterrents that need to be addressed by Federal policies. Thus, any program of Federal intervention designed to successfully alleviate the decay of urban areas must deal with more than tax incentives. Cities need tools to help them with the public investments needed to encourage private investment.

The proposals H.R. 1955, H.R. 1735 and H.R. 2375 offer various incentives to promote economic recovery of distressed areas. All basically involve a reduction in Federal taxes for employers, employees, or capital investment. NAHRO supports this concept and favors revision of the Federal code to provide tax incentives focused on stimulating jobs and investment in urban areas which have significant economic and physical distress. However, we feel that tax incentives alone are not enough. Attention to job development in and of itself, will not be adequate to turn decayed sectors of cities around.

There are, unfortunately, no long-range, comprehensive programs offering assistance to our cities. Nor does the enterprise zone concept fill this gap. Targeting of federal tax policy would be helpful, but without direct expenditures for infrastucture, housing and business seed capital, federal enterprise zones offer only little more assistance than what states and cities already have available. Enterprise zones should be a part of a comprehensive urban revitalization program. If our first concern of providing direct expenditures to distressed areas is met, then targeting tax incentives will be more effective. Tax credits have proven to be powerful incentives when targeted for development. The National Main Street Center established by the National Trust for Historic Preservation has successfully engaged in revitalizing older central business districts. Officials there contend that the tax credits offered for certain rehabilitation activities have been the key feature of financing large developments.

Another NAHRO concern is eligibility determination. UDAG eligibility criteria is satisfactory. These criteria are; rate of poverty, age of housing, growth in per capita income, popultion lag, employment growth, and unemployment rate. The benefit of this criteria for designation of zones is that it provides for a close integration with an existing development program.

Finally, NAHRO supports limiting tax exempt industrial development bonds to distressed areas. These bonds have been the catalyst needed to attract many worthwhile development projects. Unless the bonds are targeted, however, there is no incentive to use them in the areas which most need the development. We are pleased that the Administration agrees with this position.

We appreciate the complex questions the Committee must consider with this legislation and other tax measures. The advantage of these proposals is that they recognize importance of tax policies for the economic development of cities. Direct outlays of expenditures for public infrastructure coupled with indirect support through the tax system will be helpful particularly for older distressed cities in need of reinvestment. NAHRO will be glad to assist the Committee in any way that we can.

Sincerely,

ROBERT W. MAFFIN,
Executive Director.

STATEMENT OF STEPHEN GLAUDE, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF NEIGHBORHOODS

The National Association of Neighborhoods is a membership organization composed of the leadership of neighborhood organizations and coalitions that have a history of working in America's areas of urban blight and rural decay. The Association brings to the Committee a message from the streets of Watts in Los Angeles, the South Bronx in New York, and the H Street corridor within sight of the Capitol—pass enterprise zone legislation now.

The members of the Association represent the veteran fighters of America's War on Poverty. When government, major corporations, and landlords retreated from the front lines of the battle, we have continued to fight urban and rural decay. We will never give up because this is a fight to save our own families and homes from the ills of doing nothing (arson, drugs, and crime) and a general feeling of dispair. While our membership will continue to serve the cause of self-help and fight poverty whether we have Federal funding or simply bake sales to generate seed money, we are weary. We are not weary from the effort but rather from not getting much help.

Much of the discussion regarding urban and rural revitalization has revolved around removing the outward signs of urban decay, burnt shells of buildings, men standing around street corners waiting for work, children playing in streets filled with trash and abandoned cars. However, the inner signs of decay, the feeling that government at all levels and industry do not care, are much more difficult to erase from the minds of those neighborhood residents that struggle with few resources and allies. Enterprise zones represent a sign of renewed hope and opportunity as much as a brick and mortar program.

Neighborhood self-help organizations and residents need to be rediscovered by those in government and business that have abandoned the inner cities and rural areas of America. Both government and business will discover that there is a small army of people that are working to build rather than destroy their communities. It is important to understand that the nucleus of urban and rural revitalization does not have to be imported to the neighborhoods. It resides there already. Neighborhood organizations have renovated houses and apartment buildings, started cooperatives to purchase food and fuel, and set up day care centers to care for their children. The people in the neighborhoods that we represent are doers.

The NAN has been generating resources for one important ingredient in the enterprise zone concept—neighborhood group involvement in the delivery of public services. In October, 1982, we began the NAN's Neighborhood-Based Service Delivery Project. The Project is funded with a grant from the U.S. Department of Housing and Urban Development. We have selected eight cities that showed commitment to the concept of using neighborhood groups to perform services in their neighborhoods like park maintenance, abandoned lot clean-up, code enforcement, and weatherization. Since then we have been working to build on that initial interest to improve the capacity of neighborhood organizations to obtain and properly implement a contract for delivering such services.

Two cities involved in this Project are Omaha, Nebraska, and Columbus, Ohio. In Omaha, the City Council recently approved a contract worth more than $25,000 with North Omaha Community Development, Inc., for maintenance around an in-town shopping mall that the group helped develop. A local corporation has committed to helping NOCD buy equipment and computerize their operation.

In Columbus, Ohio, the Health Commission has contracted with two neighborhood groups for inspection and correction of code violations in vacant lots. These two groups, the Italian Village Society and the Harrison West Neighborhood Association, are both interested in expanding beyond the correction of code violations by contract with the city ot landscaping and maintenance work by contract with a variety of commercial clients. The Health Commission pays the groups for the work, and then uses a tax lien on the property to get back the money spent on correcting the violations from the property owner. These Columbus neighborhood associations also are receiving private support. The Chamber of Commerce has a special program for neighborhoods and a staff person who will be working with selected neighborhood on training workshops. The Columbus Foundation is ready to award grants for purchase of equipment for the maintenance crews.

The NAN's Project helps prove the validity of the enterprise zone bills' requirement for experimentation in contracting with neighborhood groups for service delivery. Our recent experiences, in addition to the collective experiences over the past two decades of using neighborhood organizations for delivering housing development and social services, continues to build the case for making neighborhood organizations full-fledged partners in every facet of enterprise zone life.

Enterprise zones are a key leveraging tool we need in our continuing struggle to improve our neighborhoods. We welcome any program that can focus the resources of Federal, state, and local government and business on geographically defined sections of urban and rural blight. We are ready to work as partners in making this program a success.

While the Members of Congress debate, the situation in America's decaying neighborhoods is getting worse. Two Senate enterprise zone bills, the Hart bill (S. 863) and in the House the Conable bill (H.R. 1955) and the Mitchell bill (H.R. 1735) have already been introduced. More may follow. The Association is encouraged that there is so much interest along similar lines that this is a concept that can work. However, the members of the Association are dismayed that there has been so little action on getting legislation passed.

In March of 1982 the Association hosted a national conference entitled "Enterprise Zones: Making Them Work". We should have subtitled the conference "Congress: Making It Work". Representatives from neighborhood organizations, state and local officials and corporate executives came to the conference to learn what was in the enterprise zone concept for them. Many of the conference attendees discovered that they had a mutual interest and a mutal need to work together to successfully revitalize America's urban and rural areas. Attendees left the conference committed to work in partnership with each other and to push for the passage of state and Federal legislation. Many public/private partnerships have been formed with neighborhood organizations playing key roles and many states have passed enterprise zone legislation. However, we are still waiting on the federal government.

This concept will not solve all our problems but it will offer an exciting new opportunity for some neighborhoods to join together with allies to fight problems with renewed vigor and a few new tools. We need a courageous Congress that is willing to resolve its differences over the many bills and finalize a bill that the President can sign and that members of the National Association of Neighborhoods can help make a resounding success.

STATEMENT OF THE NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS

The National Association of Towns and Townships [NAT&T] appreciates the opportunity to submit a statement for the record concerning current legislation to create enterprise zones. NAT&T represents the interests of 13,000 towns, townships, and small communities nationwide, the vast majority of which have a population of under 25,000. The purpose of the association is to strengthen the effectiveness of small town government and promote their interests in the public and private sectors.

We support the enterprise zone concepts but would like to clarify that our strong support rests on any legislation adopted by Congress including designation of enterprise zones in rural areas. In March of 1982, NAT&T convened a national policy development seminar to explore the question "Enterprise Zones: Will They Work in Rural Areas?" Some points made during the discussion are very important from NAT&T's viewpoint in developing policy to promote enterprise zones in rural areas.

First, access to venture capital is a crucial element in the success of any small business, and it will be particularly important in the startup of new businesses in enterprise zones. We believe that investments in enterprise zones should be made as attractive as possible to compensate for the greater risks accompanying investments in depressed areas. The availability of capital will be vital to businesses in any enterprise zone, but we believe the need may be particularly acute in rural areas.

Second, we are concerned about the eligibility requirement for rural areas in any enterprise zone proposal. H.R. 1955 would require that one-third of all areas be designated in rural areas, with a population of less than 50,000, outside of a metropolitan statistical areas, and with a population of at least 1,000 within continous boundaries. H.R. 4576 would permit designation of enterprise zones in jurisdictions with a population of at least 5,000 but not more than 50,000—totally outside all standard metropolitan statistical areas, and which has a population density of less than 200 individuals per square mile.

The eligibility requirements of both bills, while much more sensitive to rural areas than most other enterprise zone legislation of the past, will put rural areas with under 25,000 in population at a disadvantage in the designation process unless distressed communities of such size are provided sufficient technical assistance. Most distressed, small (population of under 10,000) rural communities lack the expertise and specialized knowledge to compete effectively with larger jurisdictions. In the designation of enterprise zones, this becomes a particular problem because only a finite number will be established.

In particular, the local initiative required to collect information, coordinate with other existing Federal programs, approach the state government and private sector, and analyze local economic and social conditions under H.R. 1955 will be overwhelming for the part time elected rural official. H.R. 4576, by contrast, enables the Secretary of Commerce to make technical assistance grants to economic development districts for the provision of assistance to any rural enterprise zone located in whole, or in part, in the district for purposes of identifying, designing, and implementing development projects or assisting in the management of such a zone.

H.R. 4576 also enables the Secretary to provide technical assistance, market research information, or other assistance to rural areas if such assistance will help alleviate or prevent excessive unemployment or under employment in such areas. The National Association of Towns and Townships supports these and the other technical assistance provisions in H.R. 4576 and strongly urges the Committee on Ways and Means to include them in any enterprise zone bill reported by the committee. We ask, however, that in every instance where H.R. 4576 addresses technical assistance, language that states "the Secretary may", be changed to "the Secretary shall". It has been the experience of our association's members that unless such assistance is mandated, it is unlikely to be performed. NAT&T would also encourage the Committee to make certain in any bill that one half of those areas designated rural enterprise zones are located in areas with populations of less than 25,000 totally outside of standard metropolitan statistical areas.

This concludes our comments. We would like to reaffirm our support for the enterprise zone concept and express our sincere appreciation for the thoughtful attention that has been paid to designating such zones in economically distressed rural areas, areas which are in strong need of the economic stimulation that would be provided to them as an enterprise zone. It is the request of the association that Congress move with all speed to enact such legislation.

STATEMENT OF ROBERT ZDENEK, PRESIDENT, NATIONAL CONGRESS FOR COMMUNITY ECONOMIC DEVELOPMENT, AND VICE CHAIRPERSON, NATIONAL NEIGHBORHOOD COALITION

Mr. Chairman, I want to thank you for having the opportunity to prepare written testimony for the House Ways and Means Committee that presents the views of both the National Congress for Community Economic Development [NCCED] and the National Neighborhood Coalition on the subject of Enterprise Zones. I am President of NCCED, which is a national membership association of community-based economic development organizations, primarily community development corporations [CDC's]. NCCED has over 80 organization members throughout the United States. I am Vice Chairperson of the National Neighborhood Coalition and I also serve as the Chairperson of the Economic Development Task Force of the NNC, a non-profit membership association made up of more than 50 national and regional organizations which work with and represent a vast array of neighborhood activities and organizations.

We have serious reservations about the enterprise zone concept, and we think that there are major issues which have not been addressed. Unless, these issues are addressed we feel that a Federal legislation for enterprise zones will be ineffective and will not benefit low-income people and economically distressed neighborhoods. The first part of the testimony will focus on the key issues that have been neglected in the enterprise zone debate, and the second part of the testimony will provide specific recommendations that would make the enterprise zone concept more viable.

While there are numerous weaknesses in the enterprise zone concept, we think that the House Ways and Means Committee needs to address seven critical issues in the enterprise zone deliberations. They are:

(1) The Reagan Administration has stated that the Enterprise Zones are not a replacement for other Federal programs and policies, but they have eliminated and/or reduced numerous Federal programs and offered no Federal development policy other than supply-side economics.

(2) Tax credits and incentives have limited impact on business location decisions.

(3) There is no strategy on how enterprise zones will attract businesses that will be labor-intensive and create jobs, which is the "bottom-line" of the zone concept.

(4) Other than the targeted jobs tax credit, there are no incentives in enterprise zone legislation to give preference to residents and businesses in the community.

(5) There are no displacement provisions that if property appreciates significantly in a zone gentrification and displacement will begin to occur.

(6) Community input, access to information, and monitoring is weak in the pending enterprise zone legislation.

(7) The disproportionate flow of resources in enterprise zone areas will create serious economic problems for other low-income areas not selected for enterprise zones.

As the Committee has heard repeatedly, enterprise zones must not be viewed as a substitute for a comprehensive urban policy. Enterprise zones must be viewed as but one of a set of tools for economic revitalization that are appropriate in some economic development situations. There is a whole arsenal of Federal, state, local, and private tools that can be utilized to revitalize distressed communities. Those localities and communities which have undertaken successful economic development efforts, such as Baltimore, have harnessed several different public and private resources toward a development project. Several of the leading corporations and financial intermediaries that the Reagan Administration has touted for their work in economic development, such as Control Data, the Rouse Company, and the Local Initiative Support Corporation [LISC] place a great importance upon utilizing public resources such as EDA, CDBG, UDAG, CETA, etc., to broker the participation of private corporations in undertaking economic development activities.

The notion of attempting to separate the enterprise zone debate from other public policy debates in economic development is dangerous for several major reasons. First, the encapsulation of enterprise zones from other development policies will lead to greater chaos in development policy and direction, at a time the United States desperately needs a more coherent development policy. Isolating enterprise zones or for that matter other tax policy incentives from other development tools will have the effect of emphasizing the limitations of the enterprise zone concept as opposed to enhancing the strengths of the zone concept.

There are obvious limitations to a concept predicated upon providing tax credits and deductions to businesses and individuals. A major limitation to the concept is that many new and/or existing small businesses have negligible tax liabilities because they are generating insufficient revenue. Numerous studies and practical experience have also shown that tax concessions are a relatively insignificant factor in affecting the location of new firms and branch plants. The Council of State Planning Agencies, an affiliate of the National Governors Association, published a major study on Taxes and Growth: Business Incentives and Economic Development. In a 1979 survey of over several thousand new firms on the importance of factors affecting intrastate location decisions, CSPA found that only 14.4 percent of the businesses rated state business tax structures as a deciding positive influence as compared to 30 percent for availability of capital and 50 percent for access to growing markets. CSPA also found that for branch plants state business tax structure was rated as a significant factor by only 35.7 percent of the respondents. These examples point out that the impact of taxes on business formation and location is at best marginal. Federal tax credits for employers and employees and the reduction in capital gains taxes for zone eligible firms may help provide financial inducements for firms in the zone area to expand. However, these tax incentives must be strengthened with state, local, and private tax, as well as direct financial and technical incentives such as risk venture capital pool. Our major concern on state and local incentives is that states and local governments which have severe economic problems are those entities which have a high number of areas of economic distress and may not be able to provide strong enough incentives to receive enterprise one designation. Even if the states and localities are awarded a Federal enterprise zone status, their incentives might not be strong enough to make the zones succeed.

Most small businesses are labor-intensive, which is a key to the job creation potential. Many new and small firms have limited tax liability, so the tax credits and incentives proposed by the Reagan Administration have limited benefits to these firms. The exception to the rule is the expensing provision which is listed in the recommendation section. Since tax credits and incentives result in foregone revenue to government, we implore the committee to insure that tax benefits will stimulate labor-intensive businesses in zone areas that create jobs.

While we are not advocating that all new jobs created in an enterprise zone area go to area residents, we are concerned that area residents receive incentives or preferences for as many jobs as possible. The U.S. Supreme Court recently upheld that cities can give preference to hiring local people by setting aside jobs for publicly funded projects.

Urban renewal programs and several other Federal programs have had the intended or untended effect of displacing existing low-income residents after the completion of projects. We recommend that the committee include anti-displacement provisions in enterprise zone legislation. The Community Development Block Grant [CDBG] anti-displacement provisions are a good example for the committee to follow. For those residents that will be displaced, we recommend that the Committee mandate the benefits to these residents provided in the Uniform Relocation Act.

Enterprise zones will not benefit the residents of an area unless there are mechanisms for citizen input and minority. The access to information on the progress of the zone (e.g., new businesses, number of jobs created, services provided) is critical to the residents. Mechanisms and accountability procedures should be generally spelled out. We recognize that communities are different, but those Federal, state, and local programs that have been most responsive to area residents have required citizen monitoring of government efforts. We suggest the Committee require a citizen advisory council similar to the Citizen Development Council proposed by Congressman William Coyne in his Economic Growth Zone Act of 1983. Related to monitoring is the need for the evaluation of the enterprise zone concept if enacted. We recommend that the General Accounting Office conduct an independent evaluation of the enterprise zone program several years after its enactment.

Given that there will only be 75 zones designated out of several thousand eligible jurisdictions, we are concerned about the implications of the probable concentration of existing resources in zone areas. Consider the following scenario. Once a zone is designated, applications from entities located in the zone for Federal financial assistance will receive top priority. Similarly, zone areas are likely to receive disproportionately large shares of state-sponsored development assistance and state-administered block grant funds. In their desire to maximize the effectiveness and attractiveness of zones, localities can be expected to concentrate infrastructure facilities and repairs, improved social and health services, parks, etc., within their zones. If this concentration of Federal, state, and local resources in the 75 zones occurs, it will have no deleterious effects.

First, many equally depressed areas that are not designated as Federal enterprise zones will be at a major disadvantage in competing for already scarce Federal, state, and local development funding. In this way, one effect of enterprise zones will be to reduce the availability of assistance for the thousands of jurisdictions that do not receive zone designation. Thus, these areas will not only fail to receive the benefits of zone designation, they will also be at a competitive disadvantage in receiving other assistance to address their economic problems.

Second, and perhaps more importantly, the value of enterprise zones as an experimental program will be compromised. Simply put, it will be extremely difficult to differentiate between the benefits produced by the tax incentives that form the backbone for the enterprise zone concept and the benefits accruing from the provision of direct financial assistance programs. If the purpose of enterprise zones is to test the efficacy of certain tax incentives in creating new jobs and revitalizing depressed economies, the concentration of other resources in zone areas will hamper efforts to link certain incentives with certain results, and seriously distort the ability of policymakers to evaluate the actual impact ot the tax incentives included in the enterprise zone program.

Based on our experience in economically revitalizing distressed communities, there are four critical ingredients that determine the success of any activity. They are:

(1) availability and cost of capital;
(2) management and skills of workforce;
(3) technical assistance; and
(4) ownership and control of certain resources by area residents.

Even though the enterprise zone concept is predicated primarily on taxes, it must be measured on the above mentioned ingredients to stimulate economic development in distressed communities.

The remainder of the written testimony will focus on how tax and other incentives can strengthen the four areas mentioned above. Many of the suggestions that we are recommending are incorporated in H.R. 1735, the Community Assistance and Revitalization Act of 1983 introduced by Congressman Parren Mitchell and H.R. 2375, the Enterprise Development and Industrial Revitalization Act of 1983, introduced by Congressman Henry Nowack. H.R. 1735 systematically proposes utilizing the tax code to stimulate development in distressed areas and H.R. 2375 provides a range of tax credits to stimulate development as well as linking the financing and technical assistance activities under the Economic Development Administration. We do not endorse H.R. 2955, the Enterprise Zone Employment and Development Act, introduced by Congressmen Barber Conable, Jack Kemp and Robert Garcia, the enterprise zone bill proposed by the Reagan Administration, since with the exception of the targeted jobs tax credit, the tax incentives proposed by the Reagan Administration will have little impact on stimulating business and economic development that will benefit low-income area residents living in enterprise zone areas.

The tax incentives that will most significantly address the availability and cost of capital is the expensing provision. The expensing provision will provide purchasers of stock or debentures of qualifying firms in enterprise zone areas an immediate "ordinary loss" deduction in the amount of their investment. Eligible firms would be those with a net worth of no more than $10 million which receive at least half of their revenue from other than passive sources (rents, royalties, interest, and the like). The advantage is that individuals and/or organizations would be able to get immediate tax credits for investing in zone firms, thus creating an incentive to invest. This is by far the most appropriate tax credit for enhancing business formation in distressed areas, a major goal of the enterprise zone legislation.

We would also like to suggest that the House Ways and Means Committee consider the "rollover" tax incentive as opposed to eliminating capital gains tax in enterprise zones. This is because a rollover of gain on the sale of property and/or business in an enterprise zone will require that the money is re-invested in firms in the zone. This will create a greater multiplier effect in enterprise zone areas as well as discouraging speculation, since investors and/or firms will have to pay taxes once they do not invest in eligible firms in enterprise zone areas. The elimination of capital gains does not provide such a strong disincentive to move funds out of enterprise zone areas.

Just as we are nervous about excessive speculation, we are also concerned about businesses relocating from one distressed community to another distressed community which is designated as an enterprise zone. We urge the House Ways and Means Committee to incorporate a statute that would not allow firms that move within a twelve-month period from a distressed community to an enterprise zone area to be an "eligible business" in the zone. This type of displacement is a "zero-sum" activity benefiting one community at the expense of another.

In addition to utilizing the tax code to stimulate business development, it is also important for the tax code to provide tax credits and incentives for enhancing physical structures in a distressed community. Low-income communities are usually characterized by antiquated housing and commercial structures. In order for economic development to occur, there needs to be sufficient commercial and industrial facilities. We support several of the tax credits and incentives in H.R. 2375 including:

Provide a 10 percent investment tax credit on construction of new buildings. This is especially significant in areas that have suffered severe urban renewal and in rural areas where there are limited commercial and industrial structures.

Permit an additional $400,000 of used property would be eligible for investment tax credit. This will provide an incentive to convert under-utilized or abandoned property into commercial and industrial usages.

Allow a 25 percent investment tax credit on renovation of buildings at least 20 years old. Commercial renovation is a key ingredient to the economic renaissance of a low income community.

We are pleased that each of the enterprise zone bills provides significant tax credits to employers that hire unemployed and under-employed residents. Job creation is the "bottom-line" of the enterprise zone concept. We propose a slight modification to the existing Targeted Jobs Tax Credit [TJTC] provision. Instead of having a four-year Targeted Jobs Tax Credit, we suggest a deeper two years tax credit of up to 75 percent the first not to exceed $6,000, and 50 percent the second year—not to exceed $6,000. The credit needs to be a significant incentive to hire local residents, but once an individual has worked for at least two years they have gained stable employment. We question the need for the government to continually subsidize employers once an employee has a stable job.

One of the pressing needs that both small businesses and distressed communities face is the need for technical assistance. H.R. 1735 has a provision for the establishment of an Entrepreneurial Development Center [EDC] to be financed by investment tax credits not to exceed $750,000. These Entrepreneurial Development Centers will provide management, marketing, financing, taxation, job training, rental space, and other types of assistance to small and minority businesses in the zone. They will be a private entity operated on a for-profit and allowed to charge reasonable fees. EDCs should also work closely with community-based organizations and contract with community-based organizations that have a demonstrated capacity to deliver a technical assistance such as job training or packaging business deals.

Community-based organizations can play a significant role in providing services and technical assistance to businesses in the enterprise zone. The reduction in Federal funding has affected the capacity of community-based organizations to provide these services. To strengthen the capacity of these organizations, we recommend the inclusion of the Neighborhood Assistance Act, a program in nine states that provides tax credits to corporations and individuals that make contributions to community improvement projects. NAA is a tested state tax program that has influenced the decisions of numerous corporations to become more involved in economic revitalization. We suggest the following amendment language:

"The Internal Revenue Code would be amended to permit Federal tax credits of up to $250,000 per zone, for corporations and individuals that make contributions to non-profit organizations in enterprise zones that provide services and activities designated to enhance the overall goals of the enterprise zones."

This will increase the involvement of the corporate sector in enterprise zones and provide private funding for needed economic development services. States and local government that are economically hard pressed will not be able to finance these services, as implied by the Reagan Administration. EDCs and the NAA should be viewed carefully by the House Ways and Means Committee.

Community participation and ownership of certain resources is the last major ingredient in an enterprise zone. The Reagan Administration and leading Congressional components of the enterprise zone all agree that residents must have a significant role in the implementation of the enterprise zone. However, there are disagreements over what types of community institutions and structures need to be developed in enterprise zones. Since each community is different, we feel the legislation should be flexible in recognizing community-based organizations as long as they have widespread represenatation among the local community. Four of the major types of organizations that have been mentioned in various enterprise zone bills are:

(1) Existing community-based development organizations. These organizations exist in numerous low-income communities and are often referred to as community development corporations [CDCs]. CDC activities range from financing small businesses to packaging business deals to linking job training and placement services. Naturally, it makes sense for enterprise zone authorities to utilize these organizations that have proven track record.

(2) Neighborhood enterprise associations. They would be composed of a majority of property owners in a several block radius. Neighborhood enterprise associations would perform public services and carry out neighborhood self-help projects. In turn, these associations would receive surplus public property from and service contracts from local governments. Neighborhood enterprise associations should not be established where there are other viable community-based development organizations that are or could provide the same services, since it would be a duplication of effort.

(3) Employee Stock Ownership Plans. Both H.R. 1735 and H.R. 2375 encourage the expansion of employee stock ownership plans [ESOPs] among firms in enterprise zones. ESOPs provide an opportunity for employees, some of whom will be enterprise zone residents, to share in the benefits of their firms through owning shares. The Journal of Corporation Law recently reported that the average annual productivity growth rate of ESOP companies was 1.52 percent higher than comparable non-ESOP firms. The tax incentives for ESOPs in the above bills such as treating contributions to ESOPs as charitable contributions, should be incorporated into any final enterprise zone bill.

(4) General Stock Ownership Corporation. Another innovative mechanism that is proposed in H.R. 1735 is the General Stock Ownership Corporation [GSOC]. GSOCs are resident-owned corporations that will assure the community's active guidance of their redevelopment and community's share of its resulting economic benefits. Each adult resident will be given one share and the GSOC board of directors will be composed of area residents. GSOCs will engage in real estate development activities and other economic development activities. Contributions from individuals and firms to GSOCs will receive significant tax incentives such as the nonrecognition of half the gain from sale or exchange or property to a revitalization area GSOC.

We want to reiterate the importance of coordinating enterprise zone initiatives with other development activities at the Federal, state, and local levels, not to mention the importance of private initiatives in enterprise zone areas. This is especially true with Federal programs such as Community Development Block Grants, Urban Development Action Grants, Economic Development Administration Programs, and the Farmers Home Administration. The further reduction of these programs will jeopardize any potential chance for the success of a Federal enterprise zone initiative.

In closing Mr. Chairman, the suggestions proposed by the National Congress for Community Economic Development [NCCED] and the National Neighborhood Coalition [NNC] will contribute toward the economic revitalization of distressed communities. These suggestions do not require large appropriations, but will enable the zones to have a more significant impact in benefiting low-income people. Once again, we thank you for the opportunity to testify before your committee.

STATEMENT OF THE NATIONAL COUNCIL FOR URBAN ECONOMIC DEVELOPMENT

Mr. Chairman and Members of the Committee, the National Council for Urban Economic Development [CUED] is pleased to be able to offer this statement on the enterprise zone concept in general, and on H.R. 1955, the Enterprise Zone Employment and Development Act of 1983. This legislation contains important investment and job generating incentives which are of great interest to CUED and its more than 1,000 members, who plan and implement economic development activities in more than 400 cities around the country.

H.R. 1955 proposes to combine Federal tax credits with locally designed incentive programs to pull investment and jobs into targeted distressed urban areas. Thus, its enterprise zone incentives are similar to a tax-side entitlement 6 program. Once a firm locating within a zone meets the minimum qualifications, it is entitled to the benefits. This lack of direct Federal control would add considerable flexibility to the development assistance, and mark a significant departure from conventional Federal economic development assistance programs, in which the size of the subsidy and the extent of the assisted activity flowing to a particular area are strictly regulated.

Thus, the enterprise zone proposal is fundamentally a tax program aimed at promoting economic development, rather than a traditional economic development program. However, the ingredients necessary to foster economic revitalization remain the same.

For economic development to occur, whether it be a single project to an entire targeted area, the environment must be conducive to investment. The components of this environment, all of which must be present for development to take place, include:

Availability of suitable land or space at a competitive price;

Existence of infrastructure and other supportive services;

A tax system which complements and encourages development initiatives and activities;

A suitably trained work force; and

Public sector capacity to assist development.

It is a complex combination of these physical, financial, and labor components which make an area attractive to investors and entrepreneurs. In assessing the potential of enterprise zones to revitalize distressed urban areas, we must also consider the ways to address the other elements needed for private investment to occur and how tax incentives can complement and supplement them. For enterprise zones to be successful in improving the investment environment, a flexible combination of suitably timed local incentives and appropriately coordinated private activities must be put into place. All levels of government must not lose sight of the fact that a delicate balance of public and private interests, unique to each given area, must be reached.

Most areas facing disinvestment are lacking at least one of the needed investment elements. While tax incentives alone are note enough to encourage revitalization if other needs must be addressed as well, private firms can utilize such enterprise zone incentives so that other Federal, state, and local economic development assistance can be channelled to ameliorate those problems not easily solved solely through tax incentives. In short, enterprise zones can help states and localities obtain the most leverage and effect with their limited public resources.

Having outlined the basic premise of economic development, we would like to address the six issues on enterprise zones which you raised.

(1) How should targeted, distressed areas be identified and defined?

To make the transition to this new type of Federal assistance program as easy as possible for local officials, and equitable for all regions and cities across the country, we would suggest using the distress rankings devised by HUD for the Urban Development Action Grant [UDAG] program as a first cut for identifying cities eligible to designate zones. Clearly, with so many distressed cities vying for a very limited number of zones, this is a requisite step. In addition, within those cities only the most impoverished and distressed areas should be permitted to be designated. Emphasis should be placed on high unemployment, low per capita income, and physical deterioration—along the lines of the criteria stipulated in H.R. 1955—but it should be made clear that distress is the key factor in designation.

(2) What tax incentives are most likely to aid in the revitalization of a distressed area?

Different types of incentives will be needed to attract different types of businesses. Obviously, large capital intensive firms will have different incentive needs than small, labor intensive companies. The Federal enterprise zone program should offer fairly broad incentives suitable to the general range of business activity. States and local governments can, if they wish to promote certain types of business growth within their zones, complement the federal incentives with tax incentive of their own aimed at specific industries.

Those types of incentives which should be included within the Federal program include:

Credits designed to lower the cost of labor to the employer, including credits which encourage worker training and the development of career ladder positions for entry-level workers.

Expanded investment credits for new construction or substantial renovation.

Incentives for capital investment, especially at the outset of the zone designation, such as equity expensing.

Tax and interest incentives to lending institutions to make start-up loans to small businesses within the zones.

(3) How should the revenue implications of the proposals to provide tax incentives to the zones be assessed?

In the face of massive Federal deficits, the actual cost of the enterprise zone program to the United States in terms of lost revenue is clearly of major significance. Since enterprise zones are geographically determined rather than business or industry specific, the fact is that no accurate model of prospective enterprise zone activity, and thus tax expenditure impact, can be produced since no one can survey or predict the actions of entrepreneurs in any given area. Estimates produced to date range from minimal cost to over $1 billion annually when 75 zones are operational. However, when zones are started up, the cost calculation should consider Federal outlays reduced—such as unemployment compensation AFDC, and others—as well as reductions in tax revenues.

(4) What are the relative advantages and disadvantages of tax incentives as compared with direct spending programs in addressing the problems of distressed areas?

Tax incentives provide a more flexible, and less regulated type of assistance to distressed areas than direct grants. They are important because they provide a mechanism for the direct involvement of the private sector to work with the public sector in revitalizing urban areas. Incentives provide a manageable and workable development tool for the private sector to use to stimulate revitalization, as grants provide a comparable tool for the public sector.

(5) Should the use of certain industrial development bonds be limited to distressed areas?

No; IDBs are a major economic development tool in virtually every area in the country, and to limit them to 75 small areas would curtail unrelated but equally important development activities elsewhere. We would suggest, however, that if a state bond cap similar to that contained in H.R. 4170 is enacted, that IDBs issued to finance development projects within the zones be excluded from that cap.

(6) Is it fair to have special, preferential tax rules apply in a limited number of distressed areas?

In many states, the tax code provides a useful vehicle to channel private economic development activity to areas where it can result in the most overall public good. In an era of shrinking Federal development assistance to distressed areas, the time has come for this principle to expanded to the Federal level as well. If the limited number of areas are the nation's most distressed—as we advocate—important, and positive results will be achieved.

In conclusion, the eventual impact of enterprise zone incentives on rebuilding the economies of targeted urban areas remains unknown. Nevertheless, H.R. 1955 and similar legislation could spark state-local cooperation in pinpointing specific local development needs and assessing the scope of state and local resources available for such development. However, CUED would like to underscore what so many others have stated: enterprise zones will only work if other supportive economic development tools continue to exist.

STATEMENT OF FRANCIS CHIAPPARDI, PRESIDENT, NATIONAL FEDERATION OF INDEPENDENT UNIONS

I am Francis Chiappardi, President of the National Federation of Independent Unions. I appreciate this opportunity to introduce testimony into the written records on behalf of our 70,000 members and 38 affiliated unions.

The National Federation of Independent Unions strongly supports S. 863, the Enterprise Zone Employment and Development Act of 1983. We believe that enterprise zones, as envisioned in the draft legislation, constitute a promising experiment that, even as Congress deliberates, has become more than an experiment. Twenty-nine states have either established enterprise zones, are planning to establish zones, or have legislation pending to establish zones. The political experience in these states to date suggests widely shared enthusiasm for the concept. In Washington enterprise zones are sometimes labeled by their opponents as an Administration program, even though Congressman Robert Garcia is one of the fathers of the Federal legislation and many Democrats have co-sponsored it. In states such as Louisiana, Texas, Hawaii, New York, New Jersey, Oklahoma, and Arkansas, however, state enterprise zone legislation enacted or now pending has been prompted mostly by Democrats. The enterprise zone concept has drawn such support because it is neither liberal, conservative, Republican or Democrat. It has deeper roots in such broadly American values as community and free enterprise. And it offers something to the depressed areas of our country that we all can support—jobs.

I have been saddened that my brothers in the labor movement are turning this bill, that I see as a positive step, into a political football. It appears to me that the testimony others in the labor movement have offered reflects a fundamental ignorance concerning the proposal. Let me give you a couple of examples.

It is charged that the proposed enterprise zone program will reduce public revenues, but zones will be placed in areas that are not now generating much in public revenues. Moreover, zone incentives in the Federal bill require that an area become more prosperous, that new business activity take place before taxes are reduced.

The reductions, then, are not in existing taxes but in future taxes on growth. Confusion is particularly evident on the capital gains tax issue. It is charged that the elimination of the capital gains tax will prompt businesses already in zones to sell out. Areas such as those that would receive enterprise zone designations are declining areas, where businesses have been taking capital losses. To benefit from this provision most businesses in such areas would have to experience a dramatic turn in fate, just the sort of turn that would signal the success of this program. Furthermore, for every seller, there must be a buyer. Those who bought enterprise zone businesses would have to see an improvement in business to take advantage of the capital gains elimination.

It is charged that the zones would draw businesses that would take advantage of the tax breaks and move one. Studies have shown that for a large company the personnel costs of moving a plant, that is, severance pay, the training of new employees at new sites, costs over and above moving machinery, acquiring new facilities and the like, amount to as much as $70,000 per worker. This program may be powerful, but it is not so powerful as to justify incurring that kind of expense.

It is said by others in the labor movement that the bill will induce states to rollback public health and safety regulations. We have looked at what states and cities are already doing in this area; 14 states have already or will soon be setting up their own enterprise zones; 15 others have legislation pending that would set up zones whether or not Congress acts. We have yet to see any evidence, any evidence at all, that cities participating in these state programs are acting to endanger public health or safety. What they are doing most dramatically is moving to faster processing of licenses and applications. One stop permitting is being widely employed. One city has begun to require that, when several boards must pass on one project, the boards meet jointly in one night rather than spreading separate meetings over several weeks or months. I would say that actions like that promote the most important key to public health and safety—jobs.

As I said before, we at the NFIU believe that this package is a strong, balanced, promising experiment in community revitalization. Who would doubt that most programs to combat poverty in the last fifteen years have to a great measure failed. Those programs created ever greater dependency on the government rather than the declining dependency that we were told they would produce when they were introduced. Yet the critics of enterprise zones want to have more, much more of the same failed public works and spending programs that have got us where we are today. It is almost as if they want to maintain the dependency of poor blacks and Hispanics and others, as if they regarded keeping these people out of the labor force and dependent on the government as a way of maintaining wage rates. Well, if that's their view, the NFIU respectfully disagrees. We believe that this army of the permanently unemployed threatens social peace in our Nation's communities and acts as a drag on the capacity of our members to earn more money. My membership believes that the enterprise zone program will be good for them. It will create jobs where there are not now jobs; it will create new jobs. Those new jobs will mean more people will have more money to spend, and when they spend it, that will create jobs. That is our belief. We urge the Congress to test this program, to see if that expectation is correct. We urge the Congress to try, in this limited way, this new approach to some very serious national problems.

STATEMENT OF HON. JOHN Y. BROWN, JR., GOVERNOR OF KENTUCKY, ON BEHALF OF THE NATIONAL GOVERNORS' ASSOCIATION

Mr. Chairman and distinguished members of Congress, I appreciate the opportunity to submit written testimony on behalf of the National Governors' Association [NGA] and its Committee on Economic Development and Technological Innovation. I will address the pending legislation authorizing federal enterprise zones.

My testimony can be summarized as follows.

SUMMARY

NGA supports the enactment of Federal legislation which will test on a pilot basis the enterprise zone concept. The Federal, State and local governments should have some flexibility to adjust their programs as a result of evaluative findings.

Adjustments to H.R. 1955 should be made to enhance the rate of business formation, the expansion of newer, small firms and the expansion of job opportunities for disadvantaged workers in distressed areas.

States should designate enterprise zones within broad Federal parameters.

A package of complementary Federal, State and local incentives, investments and services should be developed for each designated zone in a cooperative manner by all affected governments.

Industrial development bonds should be left unrestricted, available within enterprise zones as well as within the rest of the State.

NGA SUPPORTS THE ENTERPRISE ZONE CONCEPT

NGA supports the concept of enterprise zones as a mechanism for encouraging private sector job creation and revitalization in blighted areas. Over the last three years, twenty States have enacted enterprise zone legislation. Of these, nine already have operational programs. The preliminary indications are that over 7,500 jobs have been created or retained in the designated zones. With new business start-ups accounting for almost 50 percent of new projects and additional significant new renovations of both business and residential properties, revitalization is commencing.

TESTING OF ENTERPRISE ZONE CONCEPT

The enterprise zone concept is new. and the States are operating as the laboratories in which different program elements are being tested. A Federal enterprise zone program, if enacted, should be implemented initially only on a pilot basis to determine the effectiveness of the approach to community redevelopment needs. During the program's life, extensive evaluations should be conducted at both the Federal and State levels. As we learn more about what incentives are effective, State and local governments should have the opportunity to modify their incentives by increasing those that are effective and eliminating those that are ineffective. Incentives that are not found to be effective in generating economic activity would only serve to unnecessarily drain off limited State and local resources. The Department of Housing and Urban Development has frequently written that State and local governments must guarantee or lock-in their specific commitments in order for a Federal enterprise zone to be designated. This freezing-in of a "course of action" eliminates the necessary flexibility to make appropriate adjustments to an experimental program. Where businesses have already been accorded benefits for having created employment opportunities in the enterprise zone, such benefits extended in good faith can and should not be altered.

ACHIEVING ZONE OBJECTIVES

NGA believes the primary objectives of enterprise zones should be to increase the rate of business formations, encourage expansion of newer, small firms and expand job opportunities for disadvantaged workers in designated distressed areas. H.R. 1955, which appears to be the most likely House vehicle for Federal enterprise zone legislation, may need some modification to accomplish those objectives. To achieve a greater rate of business formation, this Committee should eliminate taxes on all capital gains realized from zone investments. This would induce a greater investment in corporate start-ups which appear to be at a high level in the initial State enterprise zones. In addition, the suggestion found in H.R. 1735 that the legislation should permit the immediate expensing for the purchase of small business stocks or debentures is worth examining.

To encourage the survival and expansion of newer, small firms, it appears the incentives offered by H.R. 1955 need to be augmented. New, small firms frequently operate at a loss for the first three to five years of their existence and generate little taxable income in the fifth through the seventh years. Thus, tax credits will not usually help these firms either survive or flourish. However, if the tax credits offered by H.R. 1955 were made refundable, then these firms might be helped considerably. H.R. 1735 provides for a tax credit for the creation of entrepreneurship development centers that would provide management assistance to small, struggling businesses. Such incubator facilities already seem to be playing a crucial role in several of the State and local enterprise zones and appear to be good candidates for Federal support.

To achieve an expansion of job opportunities for disadvantaged workers, it might make sense to consider an increase in the maximum of the targeted job credit.

STATES SHOULD SELECT ZONES

In contrast to the provisions of H.R. 1955, NGA believes that Federal enterprise zone legislation should set broad geographic targeting guidelines within which States can certify locally developed zone boundaries. In our Federal system, it is inappropriate for the Federal Government to be designating substate regions. States are in a much better position to choose the appropriate zones that can take advantage of the more extensive State incentives already offered. If each State were permitted to designate one or two zones, the political pressures at the Federal level for zone selection would dissipate, the pressures for increased zone authorizations would probably not be as great, the likelihood of experimentation of rural as well as urban zones would be higher, fewer Federal bureaucrats would be necessary, and greater integration with State investments would be probable.

DEVELOP COMPLEMENTARY PROGRAMS

NGA asserts that a package of complementary Federal, State and local incentives, investments and services should be developed for each designated zone and should be negotiated in a cooperative agreement among all affected levels of government. A national competition for the designation of zones will not serve to bring about cooperation of the governments involved.

SUPPORT OF IDBS

NGA strongly supports the continued availability of industrial development bonds. However, we see no need to target or limit them to distressed areas. There is no doubt that most enterprise zones will benefit greatly from the continued availability of industrial development bonds for: infrastructure enhancements, including improvements in wharfs and docks, sewage and water treatment, energy facilities and the like; for low-income multi-family rental housing; and industrial park and small issue industrial development. NGA supported and continues to support the industrial development bond program without further limitations beyond current law.

H.R. 1955 would permit the use of industrial development bonds and tax credits within enterprise zones. Both incentives offer the advantages of not needing Federal bureaucrats to administer them and relying on the marketplace for their use. Only if the corporate users are viable and profitable will they be able to either obtain industrial development bonds or use available tax credits.

CONCLUSION

In conclusion, the enterprise zone concept is worth trying. Twenty States have taken the initiative to test the concept, and promising activities have already begun. An effective program of Federal incentives will powerfully reinforce the State efforts. Such a program should require Federal cooperation with State designed programs. Respect for State sovereignty, program designation and State committed resources should lead one to the conclusion that the Federal enterprise zone effort should play a supportive rather than a leadership role. This relationship would lead to the broadest range of experimentation of a concept which is acknowledged by all to be still quite novel.

Thank you for the opportunity for the National Governors' Association to present its views.

STATEMENT OF DAVID L. KEATING, EXECUTIVE VICE PRESIDENT, NATIONAL TAXPAYERS UNION

The National Taxpayers Union, representing more than 120,000 members in all 50 states who are concerned with reducing government taxes and spending, fully supports the concept of enterprise zones and endorses H.R. 1955 as introduced by Congressman Barber Conable.

Enterprise zones present a unique opportunity to test and demonstrate the effect of reduced government intervention. The enterprise zone concept recognizes that government itself can be a cause of urban blight. Government taxation and regulations have frustrated the private enterprises that would otherwise have been developed.

As introduced, H.R. 1955 is an excellent bill. It strikes a good balance between Federal, state and local governments by calling for reduced Federal taxes and regulations, while encouraging state and local governments to reduce their taxes and regulations. We are especially pleased to see that the bill proposes no Federal appropriations. H.R. 1955 permits enough zones to be established to realistically assess the enterprise zone concept, while assuring that the zones that are established will be backed by a strong local commitment.

We would urge the committee to seriously consider including equity expensing in any enterprise zone bill. Under this provision, an investor would be allowed to treat investments in an enterprise zone business much like the tax treatment given to individual retirement accounts. The amount of the investment is the enterprise zone business could be written off the investor's income. Tax would only be paid once the investor's stock in the business is sold. Protections could be written into the proposal to prevent "paper" businesses from being set up just to obtain tax benefits without providing any economic benefit to the enterprise zone.

Revitalization of an urban area, of course, requires changes in social, as well as economic factors. Such factors as the crime rate and the physical condition of the neighborhood can be a deterrent to renewal. Establishment of neighborhood associations within the zone could help solve these problems. Associations which have successfuly activated local residents could be deeded government-owned vacant land inside the zone, thus giving residents an equity stake in the area. As the neighborhood improves, the value of this equity would rise and its lease value would rise. This would give the residents a direct financial incentive to improve conditions in their neighborhood. These associations could provide services to the area such as housing, block patrols designed to reduce crime, park upkeep and street lighting. This plan could also benefit city governments, by reducing the costs of various municipal services to an area.

Members of the association would also be protected against displacement. The increased income generated from the rising lease values of their land grant and the increase availability of jobs should enable residents to easily afford the rising housing costs in an enterprise zone area.

Because of our support for these types of neighborhood associations, we urge the committee to include a General Stock Ownership Corporation [GSOC] plan such as the one contained in H.R. 1735 by Congressman Mitchell, or other mechanisms to encourage development of neighborhood associations, in any enterprise zone bill it drafts. GSOCs would help accelerate development of these types of neighborhood associations and businesses. The residents of the enterprise zones would have a direct incentive to help make them work because they would profit from a successful enterprise zone development. The GSOC proposal could prove one of the most important incentives to a successful enterprise zone experiment.

We caution the Committee not to add any provision in the bill to increase government regulation or require that enterprise zone businesses hire or train a certain proportion of the population that is deemed to be disadvantaged. Increased regulation would run contrary to the spirit and the concept of the enterprise zone, seriously harming its chances for success.

Since the end of the second World War, billions of taxpayers' dollars have been funneled into a variety of programs designed to help America's decaying inner cities. From the urban renewal projects of the 1950s and the 1960s, to C.E.T.A. projects of the 1970s, these programs have uniformly proved to be failures. Business continued to flee the central cities, unemployment has risen, and the crime rate remains high. The traditional answer to the failure of these government programs has been a call for more and bigger government programs, despite the evidence that they just don't work. It's time to try a new approach. By reducing government taxes and regulations through enterprise zone legislation, we can create new hope for residents of these depressed regions.

We believe that adoption of a comprehensive urban enterprise zone act would provide the best opportunity in years to demonstrate the benefits of a relatively free enterprise, under the toughest conditions.

We hope the Committee and the Congress will soon pass a measure to implement and test the concept of enterprise zones.

STATEMENT OF MICHAEL L. AINSLIE, PRESIDENT, NATIONAL TRUST FOR HISTORIC PRESERVATION

SUMMARY

The National Trust for Historic Preservation is a nonprofit membership organization chartered by Congress to encourage private sector historic preservation activity.

The National Trust and preservation groups are working in many enterprise zone eligible areas throughout the nation to achieve the complementary goals of historic preservation and economic revitalization.

The tax incentives for historic rehabilitation are evidence that targeted tax incentives are effective in directing private investment to specific areas.

The goals of historic preservation and enterprise zones are consistent, but the proposed legislation fails to fully take advantage of historic resources and may endanger historic properties in enterprise zones.

The historic preservation community is wary of enterprise zones because of past experiences with other programs, such as Urban Renewal and the Urban Development Action Grants, which were often destructive of our nation's historic resources.

The National Trust strongly urges that any enterprise zone legislation: mandate an historic preservation survey of areas nominated for enterprise zone status; eliminate the waiver of the National Environmental Policy Act and other environmental laws, such as the National Historic Preservation Act, that is proposed in H.R. 1955 for the designation process; include the President's Advisory Council on Historic Preservation as one of the agencies to be consulted with prior to zone designation; make clear that the relaxation or elimination of protective historic preservation ordinances is not an encouraged course of action to reduce regulatory burdens; and specify protections for historic resources in any situation where waiver or modification of Federal regulations may be requested.

STATEMENT

Mr. Chairman and Members of the Committee, I am Michael L. Ainslie, President of the National Trust for Historic Preservation. I am pleased to appear before you today to share our views on H.R. 1955, the Enterprise Zone Employment and Development Act of 1983, and the revitalization proposals contained in H.R. 2375, the Enterprise Development and Industrial Revitalization Act of 1983, and H.R. 1735, the Community Assistance and Revitalization Act of 1983.

As you know Mr. Chairman, the National Trust is a private nonprofit membership organization chartered by Congress to lead the nation's private sector historic preservation movement. We have followed with great interest the evolution of the enterprise zone legislation in the Congress.

In general, the National Trust supports the concept of enterprise zones as a strategy to revitalize the nation's most depressed areas and to provide jobs and hope to the unemployed. There need be no conflict between the zone approach and historic preservation. In fact, historic resources will be important in making enterprise zones work. The ability to utilize an existing stock of buildings and structures will lower the cost of capitalizing new business. Small, historic structures can serve as incubators for new business, much as many new ideas were first put into production in the basement of an inventor's home. Larger historic structures can be adaptively reused for businesses needing room to grow, with additional inexpensive space available for future expansion.

We believe, however, that the proposed legislation misses the opportunity to achieve the maximum advantage of historic resources for enterprise zones. In addition, the proposals under consideration could have unintended, unnecessary harmful effects on historic resources located within the designated area.

Preservation and economic revitalization

Local preservationists and the National Trust are working in depressed urban and rural areas to realize the potential of historic preservation for community residents. In cities and towns throughout our Nation, preservation projects are creating jobs, rehabilitating buildings needed for housing, increasing tourism and generating a renewed feeling of civic pride.

The areas that are likely candidates for zone designation often are the same areas that contain valuable historic resources. In many cases, historic building and structures have been saved because they were located in depressed areas that failed to attract new construction or development. Today, these areas can draw on their historic past to create economic opportunity for the future.

The programs of the National Trust are demonstrating the benefits of preservation in many enterprise zone eligible areas. In just two years, our National Main Street Center has fostered the creation of 340 businesses along the 29 historic main streets in which we have worked. Since 1981, 675 housing units, 175,000 square feet of industrial space and 30 commercial locations have been developed through our Inner-City Ventures Fund by working with 22 neighborhood organizations in low and moderate income, often minority, neighborhoods. In the South Bronx, a prime candidate for designation as an enterprise zone, the Fund has worked in the Longwood Historic District to convert burned-out brownstones into low-income housing. The work is being done by community residents for community residents.

In the Northeast, our Industrial Re-use Project is helping to match industrial needs with the many available underutilized historic mills of the region. This concept has already worked in Clinton, Mass. This old New England mill town, that until a few years ago was mired in a recession with an unemployment rate approaching 20 percent, used historic and older buildings as the linchpins of economic recovery. Six high technology firms invested or will invest $60 million to rehabilitate mills into industrial space employing more than 2,000 workers and creating 101 units of housing for the elderly. As a result of this investment, the unemployment rate in Clinton has fallen to below 4 percent. Not all cities and towns can be Clintons, but preservation holds much promise for economic revitalization, and it can work in tandem with enterprise zones to use historic resources.

Effectiveness of targeted tax incentives

The historic rehabilitation tax credit, passed by Congress in 1981 with your leadership, has proven that targeted tax incentives, where sufficiently large, can direct private investment to specific areas. The incentives are one of only a few development incentives in the Internal Revenue Code that are geographically targeted. Investors in historic building within designated historic districts are eligible for a 25 percent investment credit for certified rehabilitation expenditures. In fiscal year 1983 alone, more than two billion dollars in projected historic rehabilitation expenditures were certified by the Department of the Interior. This is achieving the complementary goals of revitalization and historic preservation.

The incentives are creating both commercial and residential opportunities. They are helping foster a better environment for those who work and live within historic districts and are helping investors overcome the problem of equity capital for rehabilitation investment in "marginal" neighbordhoods. Nearly half the projects involve the rehabilitation of housing units. This success bodes well for the enterprise zone concept, which also tragets tax incentives to chosen geographic area. To the extent that the boundaries of historic areas overlap with enterprise zones, the combined incentives of the 25 percent preservation credit and the 10 percent zone rehabilitation credit provided in H.R. 1955 will work together to generate even more inventment.

H.R. 2375 provides a 25 percent investment tax credit for the rehabilitation of building over 20 years. While designed to provide a halthy incentive for investment in depressed area, this credit could diminish the effectiveness of the existing three-tier historic rehabilitation tax credits provided for building of over 30 years by making the rehabilitation of 20 year structures more appealing. The National Trust would support the 10 percent investment tax credit proposed in H.R. 1955, combined with a rehabilitation tax credit of 15 percent for buildings of 30 years and older and the continuation of the 25 percent credit for certified historic structures, thus providing additional incentive for investment in zone areas.

Past errors

The preservation community approaches the concept of enterprise zones with great caution, in spite of its potential. We carry with us vivid memories of other new programs administered by the Department of Housing and Urban Development [HUD]. These were advertised as great solutions to our urban ills, but were often ineffective and unnecessarily destructive to our nation's historic neighborhoods and downtowns.

The Urban Renewal program leveled great sections of our cities, destroying precious elements of our heritage that cannot be recreated. The Urban Development

Action Grant program, in its early years, too often sacrificed historic resources instead of building upon them for a brighter economic future. That program has largely come around to the view that old isn't necessarily bad and that preservation holds great promise for achieving urban development goals. But that change took much time, and the Federal bulldozer took a great toll.

Recommendations

In order to gain the benefits of historic preservation for enterprise zones and prevent the needless destruction of historic landmarks, we urge this Committee to include in any legislation provisions which:

(1) Mandate an historic preservation survey of areas nominated for enterprise zone status;

(2) Eliminate the waiver of the National Environmental Policy Act and other environmental laws, such as the National Historic Preservation Act, that is proposed for the designation process;

(3) Include the President's Advisory Council on Historic Preservation as one of the agencies to be consulted prior to zone designation;

(4) Make clear that the relaxation or elimination of protective landmark and historic preservation ordinances is not an encouraged course of action to reduce legal regulatory burden; and

(5) Specify protection for historic resources in any situation where waiver or modification of Federal regulations may be requested.

Historic survey

None of the proposed bills require a survey of the historic resources in potential zone areas. Only H.R. 1735 recognizes the importance of existing building stock of the health of a neighborhood by mandating zone selection criteria that includes the use of vacant or underutilized buildings. As we have noted, one of the important assests of an area seeking enterprise zone status is that area's historic properties. To take full advantage of such properties and to evaluate any potentially adverse impacts designation may have on them, they must first be located. Once identified, plans may be developed to avoid or mitigate potential harm. Additionally, a survey will target those building eligible for the existing historic preservation tax incentives.

Therefore, we believe an inventory should be required as part of the zone application process, before the designation is made. Such an inventory would be neither burdensome nor time consuming. Many areas are already inventoried. For these, a review and an update would be a minor requirement. For areas not yet surveyed, the State Historic Preservation Officer, in conjunction with the local government, could quickly perform or sponsor a survey.

Waiver of environmental reviews

We strongly object to Section 104(c) of H.R. 1955 that would have application of the National Environmental Policy Act [NEPA] or "other provisions of federal law relating to the protection of the environment" to the zone designation process. We urge its deletion.

NEPA protects historic resources by mandating the careful evaluation of alternatives to actions that may harm the cultural environment. Eliminating this analysis of alternatives at the time of designation could lead to the needless loss of historic landmarks.

This provision could also be interpreted to deny application of Section 106 of the National Historic Preservation Act to the zone designation process. This would be harmful to historic properties located within zone areas by removing the requirement for HUD to "take into account" the effect of designation on historic resources. Additionally, the Advisory Council on Historic Preservation would lose its formal opportunity to comment on a proposed designation and to seek methods to avoid or mitigate harm to historic resources if an area is designated as a zone.

Application of Section 106 to the designation process is critical because this may be the only Federal action occuring under the enterprise zone program subject to Section 106 review. All subsequent Federal involvement in a zone may be limited to tax relief, which is not now subject to Section 106.

Participation of Advisory Council on Historic Preservation

None of the proposals before the Committee specifies the Advisory Council on Historic Preservation as one of the agencies with which the Secretary of HUD must consult prior to designating an area as an enterprise zone. The Council is the Congressionally-created advisory body on matters relating to preservation and, specifically, the impact of government programs on historic resources. Consequently, the

Council is in an excellent position to aid the Secretary of HUD in evaluating designation proposals to use historic resources for economic development.

Local historic preservation laws

The proposed Section 787(d)(2) of H.R. 1955 would require areas to submit a "Course of Action" as part of their application for zone designation. One of the categories of suggested strategies is "actions to reduce, simplify, or streamline governmental requirements applying within the enterprise zone, . . ." We believe that this provision could have the effect of encouraging local governments to abandon, modify or avoid historic preservation ordinances to the detriment of historic resources.

In contrast to zoning regulations that separate and restrict the use of property, landmark ordinances do not discourage business development. Instead, they protect a building's historic character while allowing contemporary, productive uses. Significantly, both the Internal Revenue Code's provisions for certifying local historic preservation ordinances and districts, and the provisions for certification of local governments under the National Historic Preservation Act, encourage the enactment of local laws. Their abandonment would do little to further the chances of zone success and could even be counterproductive if valuable resources are wasted through demolition. To avoid this consequence and to be consistent with Federal law, the legislation should be amended to discourage or prohibit the relaxation of historic conservation protections.

H.R. 1735 instructs local governments to "coordinate this Act with other local programs" and H.R. 2375 requires that job expansion zones be planned in a manner consistent with existing state and local goals. Presumably, both bills intend the consideration and retention of local preservation laws, although we would propose including a definitive statement to that effect.

Waiver or modification of federal regulations

H.R. 1735 and H.R. 2375 do not waive existing Federal regulatory requirements for purposes of designation or administration of zones, and H.R. 1735 specifies that HUD must coordinate all Federal programs within the zones. These approaches are sound and consistent with Federal law.

However, Section 302 of H.R. 1955 would allow governments, upon written request, to waive or modify agency rules within an enterprise zone after its designation. This "regulatory flexibility" could also allow the abandonment of longstanding national policy for the protection of historic resources. Section 302 should be amended to exempt actions relating to Federal historic preservation law. Any Congressionally-mandated standards upon which such waivers or modifications are based should specify protections for historic resources.

With the changes outlined, we feel that enterprise zones and historic preservation can be partners in economic recovery. We look forward to working with the Committee in the days ahead to implement these changes so that we can proceed together to make enterprise zones a success in our Nation's older and historic areas.

STATEMENT OF KENNETH A. GIBSON, MAYOR, NEWARK, N.J.

Thank you for the opportunity to submit a statement for the record regarding tax incentives targeted to distressed areas and urban enterprise zones.

First, the identification and definition of distressed areas should be contingent upon such factors as unemployment, number of residents below poverty level, number of AFDC families, number of available jobs per 100 population, number of jobs lost, and other poverty and unemployment data.

The tax incentives most likely to aid in the revitalization of a distressed area are those most affecting businesses within the area and businesses which potentially would locate to that area. While a reduction in corporate income taxes and new jobs credits might afford some modicum of incentive, they would only benefit rather large corporations which show taxable profits. The majority of new jobs in this country are created by small businesses. Most small businesses do not show any profits for the first few years of operations; therefore, such tax incentives are of minimal use in creating new jobs and revitalizing urban areas. Even if the tax incentives were extended to proprietorships, partnerships and Subchapter S corporations, these entities would not be likely to show the taxable profits which would enable them to benefit from those incentives.

Frankly, the more important tax incentives involves property tax breaks and those can only be granted by municipalities, not by the Federal Government. Property taxes impact all businesses and are likely to be one of the major factors in deciding where a business will be located. Site decisions are also based on factors such as the municipality's ability to provide basic services (police, fire, sanitation) and adequate infrastructure services (good roads, bridges, sewers). A business is not going to locate or expand in an area where the roads are so poor that it cannot ship its goods. The availability of a trained, able work force is also an important factor. In these respects, the federal government can be immensely helpful.

The Federal Government should implement an enterprise zone program to revitalize distressed areas. The program should:

(1) Provide reimbursement to local governments in enterprise zones which grant property tax abatements.

(2) Provide special funding to local governments in enterprise zones to pay for added police, fire, and sanitation services, as well as infrastructure repairs.

(3) Fund extensive job training programs and educational enrichment programs to ensure a trained, educated, high quality labor pool.

If properly implemented, this enterprise zone program would work well and achieve its goals. Mere tax incentives are a shoddy, poor substitute for urban aid and will not ameliorate the problems confronted by ailing urban areas or by industry and commerce.

One might assess the revenue implications of proposals to provide tax incentives for distresses areas in terms of what they replace. In other words, the Federal Government would be saving money in the short term by only sacrificing nominal revenues lost by tax incentives as opposed to the larger costs of real and meaningful urban aid. In the long run, such savings are folly and must be measured in the human costs incurred by reduced urban aid. Tax incentives can never take the place of direct spending in addressing problems of distressed areas.

The fairness of using special tax incentives in a limited number of distressed areas is the same as the fairness of having unemployment, welfare, substandard housing and the plethora of other urban problems in a limited area.

No Legislator should be fooled into thinking that tax incentives will even put a dent in the problem of economic revitalization of urban America. Giving local governments the tools and funds to solve their own problems is the only serious solution to this problem.

STATEMENT OF JOSEPH C. RITCHIE, MAYOR, CITY OF NEWPORT NEWS, VA.

Mr. Chairman, members of the committee, on behalf of the City of Newport News, Va., I wish to express our strong support for the enactment of Federal enterprise zone legislation by the 98th Congress. The enterprise zone concept can be a valuable tool aiding in the revitalization of economically depressed neighborhoods in our Nation's cities.

America's cities desperately need the kind of thoughtful attention to the private sector that the enterprise zone program provides. When private enterprise leaves the inner city, people lose jobs, poverty multiplies and the local tax base deteriorates. The key to reversing the cycle of economic decay, poverty and blighted neighborhoods is bringing private sector initiative back into the city. However, businesses must be able to earn a profit before they will locate in depressed neighborhoods. This is where the public sector must take action, particularly the Federal Government, but also state and local governments. Enterprise zone programs must be implemented in order to provide the incentives which spell the difference between profit or loss to a firm operating in an inner city neighborhood.

Economic blight is experienced by cities both large and small in every region of our land. While the economic problems of the Northeast and the Midwest are painfully real, the Sunbelt is not immune to economic hardship. During the recent depression, Alabama experienced one of the highest unemployment rates of any state in the Union, and some counties in Virginia had as many as a third of their able-bodied workers unemployed.

In my own City of Newport News, Va., our downtown has long suffered from a loss of market as affluent shoppers moved to the suburbs, from deteriorating property values and from an unstable employment base. In the surrounding neighborhoods, 36.8 percent of the people are living in poverty and almost one out of every four households is receiving public assistance. More than 10 percent of the labor force is unemployed, but an additional 18 percent lack the skills or the hope to even enter the labor force. The City has taken positive steps to revitalize the downtown area and to provide jobs for those who are eager to work there. However, if the City's development program is to succeed and if businesses are going to locate and expand in our inner City, incentives must be provided by the public sector. These incentives are needed to help inner-city firms operate profitably. The Federal, state and local enterprise zone programs are the most promising vehicles for the coordinated provision of such incentives. Every effort must be made to eliminate the scourge of poverty and unemployment from our depressed urban neighborhoods. The continued and expanded funding of existing Federal programs—Urban Development Action Grants, the Economic Development Administration, Job Training Partnership Act programs, etc.—is commendable. However, cities need every possible tool to improve the quality of life for all our citizens, expecially the economically disadvantaged.

I strongly believe that the enterprise zone program will make a difference in impoving the economic health of our inner-city neighborhoods. The Commonwealth of Virginia has enacted urban enterprise zone legislation and the City of Newport News has applied for the designation of such a zone within the City.

In Virginia's urban enterprise zone program, the Commonwealth provides business income and sales tax credits over a period of five years to firms locating or expanding within the enterprise zone. The City of Newport News has developed and extensive program of enterprise zone incentives to complement those offered by the Commonwealth. These local incentives include a five-year abatement on local business license and utility taxes, a targeted employment and training program, improvements in basic services and facilitated access to local sources of capital.

As part of this testimony, I am attaching "Newport News Urban Enterprise Zone Application for Designation," which provides a description of the local incentive package which we developed for our own enterprise zone. I am hoping that, after receiving designation from the Commonwealth, the City may apply for designation under the Federal enterprise zone program. The success of Newport Centre—our development program for inner city revitalization—will be materially advanced by the implementation of a coordinated enterprise zone program. The availability of Federal tax credits and the targeting of regulatory reforms with in entrprise zones will provide a crucial element which, in combination with state and local efforts, will attract businesses and provide jobs in distressed neigborhoods.

I urge you to report favorably on the Federal enterprise zone legislation which is before you as soon as possible. The Senate has already acted favorably on this matter. It is now up to the House to secure the swift passage of this important legislation.

Thank you for your support of Federal enterprise zone legislation and for your efforts to secure a speedy enactment of this program by the Congress of the United States.

STATEMENT OF MAYOR EDWARD I. KOCH, NEW YORK CITY

SUMMARY: ENTERPRISE ZONES—NEW YORK CITY'S CONCERNS AND RECOMMENDATIONS

The City of New York has consistently endorsed the concept of enterprise zones—providing Federal tax incentives to stimulate job growth and the retention of businesses in economically distressed areas. Tax measures alone, however, cannot attract increased business investment to distressed areas, because taxation is not the only factor in a business's decision on where to invest its capital. An enterprise zone proposal should not be thought of as a substitute for Federal economic programs. Furthermore, the City cannot meet its economic development goals by stimulating investment in an enterprise zone, while the Federal Government cuts other vital programs for distressed areas (such as EDA, Industrial Development Bonds, small business loans, job training and public employment funds, etc.).

The administration bill

The Administration's enterprise zone proposal introduced by Mr. Conable as H.R. 1955 has made some improvements over previous Administration proposals. For example, the definition of "disadvantaged workers" has been broadened somewhat to allow more low-income people to qualify for enterprise zone benefits.

Yet the City still has a number of problems with the Administration bill which are outlined in detail in the enclosed list. These include concerns about the number and size of the zones which might be available for New York City, particularly in light of the provision to set aside one-third of the 75 zones for rural areas. It also appears that State and local legislation must be in place prior to Federal selection of enterprise zones. The City is concerned that it would thereby have to commit itself to an enterprise zone (and incur substantial costs both in terms of funds and other resources) without any guarantee of eventual zone designation.

The Administration proposal also emphasizes privatization and deregulation at local levels, discouraging local effort in many of the more traditional economic development areas that New York City has specifically endorsed. These include direct job training, security, infrastructure and maintenance repair and capital availability programs. Furthermore, the City might be given "little or no credit" for existing economic development programs that apply "relatively uniformly" State or community-wide. This provision may make many of the City's current economic development programs of little value in the competitive enterprise zone selection process, and give an edge to jurisdictions that previously had not implemented development programs.

Further, with regard to specific Federal tax incentives, this proposal provides little for locally-based small businesses such as existing firms, expanding firms and start-up or marginal firms with little or no tax liabilities. The City believes that locally-based firms hold significant promise for job generation in distressed areas and should receive benefits commensurate with those received by wealthier firms.

Some of the City's concerns regarding the extent of zone benefits and the availability of capital for small businesses are addressed by the Nowak (H.R. 2375) and the Mitchell (H.R. 1735) proposals. The City feels that both thses alternative bills go a long way in making enterprise zones more effective, although some of the concerns in the enclosed list still apply.

The Nowak bill

The City welcomes the linkage between tax incentives for distressed areas and direct funding programs as established under H.R. 2375. The Nowak bill recognizes the need to combine tax incentive measures with direct Federal programs including infrastructure and public works investment and small business loans to offset existing capital shortages. The City also supports the proposed refundability of certain tax credits, the expensing provisions for equity investments and debentures, and the favorable borrowing provisions for small businesses under a restructured SBA program as contained in the Nowak legislation. These measures would particularly assist small enterprises and those without capital liability which are often unable to benefit from tax credits during the initial and formative years.

The Mitchell bill

The City supports a number of important provisions contained in the Community Assistance Revitalization Act (H.R. 1735), proposed by Representative Mitchell. Like the Nowak bill, the Mitchell bill contains equity expensing and debenture financing provisions, and special assistance for small businesses, in addition to a variety of tax incentives. These features would encourage both debt and equity investments in distressed areas and generally stimulate business activity. H.R. 1735 particularly focuses on the needs of small and minority-owned businesses and encourages community-based investment and development as well as employee ownership of local businesses.

SPECIFIC CONCERNS AND SUGGESTIONS

Number of zones and rural set-aside.—The Administration's proposal provides for only 75 zones to be designated over a three-year period. One-third of these zones are to be set aside for rural zreas. These provisions could restrict the number of zones available to New York City, despite the need for revitalization of several distressed areas in the City.

Zone designation at the local level.—In addition to a requirement that State/local legislation be in place prior to Federal designation, a mechanism should be available whereby a municipality can determine if its package of local incentives would meet Federal standards before local legislation is enacted.

Federal selection criteria.—The City is concerned that major emphasis is placed on local tax and regulatory relief without giving adequate emphasis to poverty and local distress factors. However, it is precisely the more distressed communities that need the targeted benefits of an enterprise zone. Yet these are the communities that can least afford the cost of the local tax cuts or new development programs, advocated in the Federal proposals. It would appear that New York City would receive a relatively greater benefit from a Federal program targeted to "fiscal distress" than from a competitive program as previously proposed.

Special assistance for small, marginal, or start-up businesses without significant tax liabilities.—To benefit from enterprise zone incentives, firms without tax liabilities depend on refundable tax credit provisions. Another approach would be to grant zone firms the option of selling their unused investment tax credits. This could be done in a number of ways including safe-harbor leasing under the Federal Economic Recovery Tax Act.

Benefits for existing, nonexpanding firms.—The capital gains elimination is the only tax incentive that is fully applicable to existing, non-expanding businesses. (The employer tax credits and the investment tax credit apply only to additional activities or hires after the zone designation.) Enterprise Zone legislation should make additional efforts to encourage retention of existing marginal businesses within enterprise zones.

Capital availability.—The elimination of capital gains taxation and the investment tax credit assist only those firms that have sufficient resources to make the initial investment. The previous Kemp-Gracia provision which partially sheltered interest income from bank loans made to zone businesses is therefore important. Also, the capital availability problem could be partially addressed by an "expensing provision" which would shelter the income of private investors (not banks) making small loans to firms. This concept has been successful in British enterprise zones. The expensing provision should be further evaluated to determine its application to U.S. enterprise zones.

Employment training.—Since job training is a crucial component in economic revitalization at the local level, powerful, direct training incentives should be provided by zone legislation. Efforts to link job training to enterprise zone residents (e.g., in conjunction with PIC's) would represent the kind of Federal effort the City believes should be included in enterprise zone legislation.

Disadvantaged worker definition.—While the Administration's definition of an employee that would qualify a business for a tax credit has been expanded somewhat from previous bills, it still appears to be more restrictive than the former CETA eligibility requirements. The City supports a definition which would include the marginally poor.

Local commitment.—Existing local economic development programs should be counted as a "local commitment" in the enterprise zone competition (as opposed to considering only new or expanded local programs). The City has a large number of existing loan, security, business service, employment training, infrastructure repair, and tax incentive and abatement programs that would not be credited. New York State as well has a variety of programs that would not be recognized. The City and the State should be credited for their existing community revitalization programs.

State role in local zone designation.—H.R. 1955 mandates that both State and local governments pass nominating legislation creating enterprise zones and zone incentives. This procedure gives the State legislature "veto" power over the locality's efforts at forming a zone. The City maintains that state governments should not be given such absolute veto rights with respect to enterprise zones. For example, a proposed New York State bill limits to six the number of State zones to be created. Such a restriction, if passed, could limit the City's flexibility to have two or more zones.

Sub-zones.—The use of sub-zones may provide the City with greater flexibility in targeting particular development incentives to individual neighborhoods rather than to an entire zone. The policy parameters on sub-zones should be made explicit in enterprise zone legislation.

Zones "rescinding".—Business and financing agents must be assured that if a zone's status is rescinded by HUD, the firms that have already relocated to the zones will continue to receive the Federal tax credits and incentives promised to them. The consequences of zone recission to a firm must be made clear in zone legislation, and a procedure for appeals should be established.

Emphasis on neighborhood participation.—The City supports the importance placed on neighborhood participation in the enterprise zones. However, the City does not necessarily support all facets of the Neighborhood Enterprise Associations [NEA] program put forth in the Reagan Administration's implementation plans. The City agrees that local community organizations such as churches, local development corporations, civic groups, business associations, etc., should play a vital role in an enterprise zone.

STATEMENT OF WILLIAM E. RACHELS, JR.,[1] CHAIRMAN, NORFOLK, VA., URBAN ENTERPRISE ZONE COORDINATING COMMITTEE, AND CLYDE R. HOEY II,[2] CHAIRMAN, PORTSMOUTH, VA., URBAN ENTERPRISE ZONE TASK FORCE

The cities of Norfolk and Portsmouth enthusiastically support the urban enterprise zone concept. It is not seen as a substitute for existing community develop-

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[1] Chairman, Norfolk, Virginia Urban Enterprise Zone Coordinating Committee and Immediate Past President, Norfolk Chamber of Commerce.

Continued

ment programs, but rather as a valuable expansion of these programs. The objectives of urban core cities in managing redevelopment programs can be met soon and in a more complete way with the addition of these types of business and development incentives. It is a chance to let the private sector carry some of the burden of blight elimination and create new job opportunities in special inner city areas without the direct subsidies required by other development programs in the past.

Urban core cities as Norfolk and Portsmouth have attempted to rid themselves of severely blighted residential and commercial properties in older sections of these cities over the last few decades. However, these attempts have produced certain negative consequences for the adjacent or nearby sections of these two communities. Businesses have often abandoned these sections. The marginal profitability of those remaining business establishments resulted in an insufficient investment in structures, thereby hastening the decay of the physical environment. These decaying structures serve to discourage new private investment (due to extremely high rehabilitation costs) and to foster a negative image of the depressed area among city and area residents. The large number of vacant structures and low level of pedestrian traffic in the area increases the incidence of criminal activity such as vandalism, theft and drug trafficking. This increased criminal activity further discourages new private investment and heightens the cycle of decay. The above factors combine to dramatically increase the cost of doing business in a depressed area to the point where investors simply cannot realize an acceptable return on their investment without the infusion of public funds.

One method of attacking this serious problem is to continue infusing public dollars for the acquisition of properties, the relocation of families and businesses, the clearance of blight, and the installation of public improvements. However, funding availability for achieving these renewal goals has become very limited in recent time. Public programs by themselves can no longer support the cost of maintaining the urban infrastructure and at the same time start new projects. Without the funds to support continued large scale redevelopment efforts, the strategy for achieving community improvement is becoming more and more based on the interlocking support of public assets and improvements to generate private development in a partnership for revitalization. The cities of Norfolk and Portsmouth are actively pursuing a program that encourages private enterprise to participate in bringing depressed areas back to economic and physical life—The Urban Enterprise Zone Program. Such zones would be a mixture of commercial, residential and industrial uses.

EFFORTS TO DATE

In view of the above need to encourage private investment, both the Federal and state governments must provide incentives. The Virginia State Program is already in place and awaits complementary activity at the Federal level. Our communities have been in active support of these programs.

The Norfolk Chamber of Commerce initiated a local enterprise zone effort in July of 1980. Due to overwhelming interest in a program of this sort, and the legislative activity generated on the Federal level, it became apparent that to take advantage of Federal incentives, state and local cooperation was mandatory. Norfolk formed the Urban Enterprise Zone Coordinating Committee while Portsmouth set up it's own task force to study the subject. The composition of these committees included city department and management staff members, redevelopment and housing authority officials, chamber staff, business representatives, and citizens living within those neighborhoods qualifying for zone designation. The goals and the guidance of those living in the zone have been the cornerstone of discussions among these two committees.

In the fall of 1981, after meeting with the Norfolk Coordinating Committee, General Assembly Delegate Robert Washington agreed to sponsor enterprise zone legislation in the 1982 Virginia General Assembly. The legislation passed with almost unanimous support in both houses, with total support from Governor Charles S. Robb.

VIRGINIA STATE PROGRAM

With regard to the designation of zones, the Virginia program is a competitive one; while an area may meet the eligibility criteria, this does not guarantee its ac-

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[2] Chairman, Portsmouth, Virginia Urban Enterprise Zone Task Force and President, Portsmouth Chamber of Commerce.

ceptance into the program. Further, although Virginia's incentives are available to businesses that exist or relocated in an enterprise zone, the business must meet the eligibility criteria outlined in Virginia's Urban Enterprise Zone Act.

The legislation does not address specific local implementation. This implementation gap allows flexibility and innovation, which is critical to the enterprise zone concept. Each locality is responsible for local incentives. The Virginia Department of Housing and Community Development will implement the State's Enterprise Zone Act. Its responsibilities are to establish zone eligibility criteria, to administer and enforce the accompanying regulations, to monitor and evaluate the Act, and to assist local units in zone operations.

Governor Robb shall approve, upon the recommendation of the State Secretary of Commerce and Resources, the designation of up to four areas as Urban Enterprise Zones in 1983.

THE NORFOLK AND PORTSMOUTH PROGRAMS

Once the state program was in place, the Norfolk Enterprise Zone Coordinating Committee and Portsmouth's Urban Enterprise Zone Task Force began working to develop local incentive packages. The first priority of both groups was the selection of a zone site. Norfolk identified an area combining adjacent portions of three neighborhoods examined while Portsmouth sited their High Street corridor as a qualifying area.

The local goals of Norfolk's enterprise zone program were developed and divided into four main categories: economic, social, physical, and municipal. To achieve these goals, a potential local incentive package was shaped after studying the needs of the neighborhoods in the potential zone area. Incentives were to include the setting up of a facilitator team to guide the implementation of the program, business counseling services, public services enhancement, streamlining the local permit process, investigation of more flexible zoning procedures, indentification of local and state tax structures which may provide incentives as well as monitoring changes in those structures, start-up capital and resource commitment (fund availability and job training).

Portsmouth's incentive package is divided into six categories: environmental, security, regulatory, manpower training, transportation, and financial. The incentives falling under these categories are designed to overcome barriers to investment in the High Street corridor. They include the City's financial commitment to begin streetscape improvements, rezoning to permit broader range of uses, educational outreach, public transportation to currently unserved areas, extension of real property tax abatement, and target training needs assessment.

The cities of Norfolk and Portsmouth have submitted a joint application to the Virginia Department of Housing and Community Development. It appears that this intercity cooperative effort is among the few such in the nation, if not entirely unique.

We support H.R. 1955 and are pleased that Representative G. William Whitehurst of Norfolk is one of the co-sponsors of H.R. 1955. Both Senators John W. Warner and Paul S. Trible are listed as co-sponors on S. 863, similar legislation in the senate. Having been involved over the past three years with the basic enterprise zone concept and several different pieces of federal legislation, we feel that this bill offers a workable proposal upon which many of our efforts up to this point have been based.

State and local efforts are being successfully developed in Virginia; however Virginia has always had a relatively favorable business climate. The reduction or elimination of the state and local tax and regulatory burden will help attract new business activity. The simultaneous reduction of the heavy federal tax and regulatory burden is essential to insure the program's success. The critical emphasis is to provide incentive for private rather than public development.

We urge members of the House Committee on Ways and Means to support this legislation proposal which would allow free enterprise rather than subsidies to restore our cities.

ADDITIONAL INFORMATION

A. Letter of Endorsement from Virginia Governor Charles S. Robb.
B. Letter of Endorsement from Virginia Delegate Robert E. Washington.
C. Letter of Endorsement from Norfolk Mayor Vincent J. Thomas.
D. Letter of Endorsement from Portsmouth Industrial Development Authority.
E. Letter of Endorsement from First Virginia Bank of Tidewater.
F. Letter of Endorsement from the Portsmouth Manpower Commission.

G. The Virginia Urban Enterprise Zone Act.

COMMONWEALTH OF VIRGINIA,
OFFICE OF THE GOVERNOR,
Richmond, Va., April 18, 1983.

Hon. ROBERT DOLE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR DOLE: I am pleased that the City of Norfolk has been invited to testify before the Senate Finance Committee on the "Enterprise Zone Employment and Development Act of 1983." Since Norfolk was selected as the first city in the country to receive a redevelopment project under the U.S. Housing Act of 1949, it has been a leader in undertaking innovative approches to the revitalization of inner-city areas. Much of the city's success can be attributed to the strong commitment of Norfolk's city government to work with the private sector.

Norfolk has also been a leader in Virginia's enterprise zone efforts. It had an enterprise zone task force in operation before the state law became effective. Norfolk's representative to the General Assembly sponsored the bill which led to Virginia's Urban Enterprise Zone Program. Norfolk also served on the committee of private sector and local government representatives who assisted in drafting Virginia's enterprise zone rules and regulations. Norfolk has supported and encouraged the state's efforts in every possible way, and I am sure its representatives will offer suggestions in the development of the federal legislation.

Virginia was among the first states to enact enterprise zone legislation, and we hope there will soon be a federal enterprise zone statute. We believe there are significant advantages to be gained by having state and federal zones operating in conjunction with one another. Designation of a federal zone in Virginia would promote state-federal cooperation and increase the chance of success in achieving the objectives of this program.

We enthusiastically support federal efforts to get this program underway.

Sincerely,

CHARLES S. ROBB.

Re Urban Enterprise Zone Legislation.

COMMONWEALTH OF VIRGINIA,
Richmond, Va., April 18, 1983.

Hon. ROBERT DOLE,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR DOLE: I am pleased to submit this statement in support of the testimony by representatives of the City of Norfolk, Virginia favoring the Federal Urban Enterprise Zone legislation.

As a member of the Virginia State Legislature, I sponsored the Virginia Urban Enterprise Zone Act, which was passed in 1981, with near unanimous support in both Houses of the General Assembly. Regulations are now being promulgated to implement the Act. We are extremely optimistic for chances of success in State designated zones. Substantial success over the long term, however is dependend upon parallel Federal Action.

Virginia, like all other states, can provide incentives for economic development only within the framework of our state enacted tax policies and regulations. A greater measure of relief, and thus a greater incentive for development, potentially exists within the Federal tax structure and regulations. Accordingly, I urge your Committee and the Congress of the United States to join with the several states that have enacted Urban Enterprise Zone legislation and favorably consider the legislation before you.

Lastly, the City of Norfolk representatives before you, including Mr. William E. Rachels, Jr., and other associated with the Norfolk Chamber of Commerce, were in the forefront of the bi-partisan efforts that led to the passage of the Virginia Act. I am confident that you will find their testmony supportive and instructive. Thank you for your consideration.

Very truly yours,

ROBERT E. WASHINGTON.

City of Norfolk, Va.,
April 18, 1983.

Hon. Robert Dole,
Chairman, Senate Finance Committee,
Dirksen Senate Office Building, Washington, D.C.

Dear Senator Dole: It was with great pleasure that I learned the City of Norfolk had been asked to participate in the Senate Finance Committee hearings on the Urban Enterprise Zone legislation. Since word was first received many months ago that the Administration would pursue Enterprise Zones as its fundamental urban policy, Norfolk has conducted energetic and productive efforts in anticipation of the Federal program implementation.

I believe that the single most important factor of the Enterprise Zone concept is the emphasis on private sector leadership. Under the chairmanship of William E. Rachels, Jr., the Norfolk Urban Enterprise Zone Coordinating Committee has diligently laid the foundation and erected a structure necessary to ensure the smooth and successful creation of our Zone.

I would like you and the members of the Senate Finance Committee, indeed the Congress as a whole, to know that the Norfolk City Council has, from the beginning, endorsed not only the concept of Urban Enterprise Zones, but also the Federal Enterprise Zone legislation. We very much appreciate the support the legislation enjoyed in the Senate last session; we are confident that there is an even deeper commitment in the new Congress. Norfolk has pledged to make its Enterprise Zone work, but the Federal legislation is needed to assure its success.

Sincerely yours,

Vincent J. Thomas, *Mayor.*

City of Portsmouth,
Industrial Development Authority,
Portsmouth, Va., September 19, 1983.

Mr. George L. Hanbury,
City Manager,
City of Portsmouth, Va.

Dear George: I am writing to inform you of the Portsmouth Industrial Development Authority's unanimous vote of support for the City's application for State enterprise zone designation.

The Authority Commissioners feel that the City has put together an excellent application and a package of local incentives which, in conjunction with the planned Priority Action Plan, will provide the impetus for downtown redevelopment.

The Authority also supports the City's decision to seek joint designation with the City of Norfolk as a significant step forward in regional cooperation.

Sincerely,

Peter Eustis, *Chairman.*

First Virginia Bank of Tidewater,
Norfolk, Va., September 14, 1983.

Mr. Lamont D. Myers,
Department of Economic Development,
Portsmouth, Va.

Dear Lamont: As a follow up to the recent meeting held in your office, I am pleased to report that First Virginia Bank of Tidewater supports the City of Portsmouth's application for designation of an Urban Enterprise Zone.

Also we feel the financing plan for small businesses that you revealed whereby the Portsmouth Redevelopment and Housing Authority (PRHA) would issue tax free notes to be purchased by the local banks is an excellent idea. This, of course, would enable small companies and shop owners to make necessary renovations and capital expansions with low cost funds and avoid the large legal fees normally associated with regular Industrial Revenue Bond financing. We would be very willing to consider the tax free note financing for any of our existing customers or prospective new customers as may be appropriate.

We look forward to working with you and your associates, along with the PRHA in the coming months. It is good to see the people of Portsmouth aggressively seek positive and well planned economic development in your fine city.

Sincerely,

CHARLES F. TAYLOR,
Vice President, Commercial Loan Department.

CITY OF PORTSMOUTH, VA.,
October 3, 1983.

Mr. GERALD BURGESS,
Executive Director, Office of Economic Development,
Portsmouth, Va.

DEAR MR. BURGESS: The Portsmouth Manpower Commission unanimously endorsed the Enterprise Zone application at their last scheduled meeting on September 29, 1983.

The Commission supported the comprehensive approach outlined in the application to overcome the barriers of the High Street Corridor. We agree that the environmental, security, zoning and financial incentives are essential for attracting and retaining businesses in that area. The Commission recognizes the potential these incentives have on encouraging the development of jobs in Portsmouth. In addition, the Commission supports an outreach effort to provide residents of the enterprise zone with access to employment opportunities and certification for manpower training programs. Although Portsmouth will no longer be administering employment and training programs under the Job Training Partnership Act (the Southeastern Tidewater Area Manpower Authority will administer JTPA programs), the Commission will support the Targeted Jobs Tax Credit and On-the-Job-Training programs in the area through their representation on the STAMA Private Industry Council.

Speaking on behalf of the Manpower Commission, I look forward to the acceptance of this application and the successful implementation of this plan in the future. Please keep me updated on this project. Thank you.

Sincerely,

DAVID S. PECK, *Chairman.*

1982 REGULAR SESSION

CHAPTER

An Act to amend the Code of Virginia by adding in Title 59.1 a chapter numbered 22, consisting of sections numbered 59.1-270 through 59.1-284, providing for the Urban Enterprise Zone Act.

APPROVED

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Title 59.1 a chapter numbered 22, consisting of sections numbered 59.1-270 through 59.1-284, as follows:

CHAPTER 22.—URBAN ENTERPRISE ZONE ACT

§ 59.1-270. Short title.—This chapter shall be known and may be cited as the "Urban Enterprise Zone Act."

§ 59.1-271. Definitions.—As used in this chapter:

"Business firm" means any business entity authorized to do business in the Commonwealth of Virginia and subject to the state income tax on net corporate rate income (§ 58-151.031 et seq.), or a public service company subject to a franchise or license tax on gross receipts, or a bank, mutual savings bank, savings and loan association, or a partnership or sole proprietorship.

"Department" means the Department of Housing and Community Development.

"Secretary" means the Secretary of Commerce and Resources.

"Urban Enterprise Zone" means an area declared by the Governor to be eligible for the benefits of the Urban Enterprise Zone Act.

§ 59.1-272. Statement of purpose.—It is hereby declared that the health, safety and welfare of the people of the Commonwealth of Virginia are dependent upon the continual encouragement, development, growth, and expansion of the private sector within the Commonwealth and that there are certain areas in the Commonwealth that need the particular attention of government to help attract private sector investment. Therefore, it is the purpose of the Urban Enterprise Zone Act to stimulate business and industrial growth in such areas which would result in neighborhood revitalization of such areas of the Commonwealth by means of regulatory flexibility and tax incentives.

§ 59.1-273. Administration.—The Department shall administer this chapter and shall have the following powers and duties:

1. To establish criteria for determining what areas qualify as Urban Enterprise Zones. Such criteria shall be the minimum required for implementation of the purpose of this Act;
2. To monitor the implementation and operation of this chapter;
3. To conduct a continuing evaluation program of Urban Enterprise Zones;
4. To assist cities and counties in obtaining the reduction of regulations within Urban Enterprise Zones;
5. To submit annual reports evaluating the effectiveness of the program and any recommendations for legislation to the Governor; and
6. To administer and enforce the rules and regulations promulgated by the Board of Housing and Community Development.

§ 59.1-274. Urban Enterprise Zone designation.—A. The governing body of any county or city may make written application to the Department to have an area or areas declared to be an Urban Enterprise Zone. Such application shall include a description of the location of the area or areas in question, and a general statement identifying proposed local incentives to complement the state and any federal incentives. Adjacent jurisdictions may file a joint application for an Urban Enterprise Zone lying in both jurisdictions.

B. The Governor shall approve upon the recommendation of the Secretary the designation of up to six areas as Urban Enterprise Zones for a period of twenty years. No more than four zones shall be designated during the first year after the effective date of this Act. Any such area shall consist of contiguous United States census tracts or block groups in accordance with the 1980 United States Census. Any such area shall also meet at least one of the following criteria: (i) twenty-five percent or more of the population of the area shall have incomes below eighty percent of the median income of the jurisdiction, or (ii) an unemployment rate 1.5 times the state average.

§ 59.1-275. Application review.—A. The Department shall review each application upon receipt and shall secure any additional information that the Department deems necessary for the purpose of determining whether the area described in the application qualifies to be declared an Urban Enterprise Zone.

B. The Department shall complete review of the application within sixty days of the last date designated for receipt of an application. After review of the applications, the Department shall forward those applications qualifying for an Urban Enterprise Zone to the Secretary. The Secretary shall recommend to the Governor within thirty days those applications with the greatest potential for accomplishing the purpose of this Act. If an application is denied, the governing body shall be informed of that fact together with the reasons for the denial.

C. If any portion of an area designated as an Urban Enterprise Zone under this Act is included in an area designated as an Urban Enterprise Zone by an agency of the federal government, the area designated by this Act shall be enlarged to include the area designated by the federal agency.

§ 59.1-276. Sale of public land.—Upon designation of an area as an Urban Enterprise Zone, the Commonwealth and any units of local government that own any land within the Urban Enterprise Zone shall make available for sale all land within the Urban Enterprise Zone not designated or targeted for some public use with the condition that it be developed.

§ 59.1-277. Government assistance; prohibition.—There shall be no duplication of existing state tax incentives to qualified business firms which locate in an Urban Enterprise Zone.

§ 59.1-278. Rules and regulations.—Rules and regulations prescribing procedures effectuating the purpose of this Act shall be promulgated by the Board of Housing and Community Development in accordance with the Administrative Process Act.

§ 59.1-279. Eligibility.—A. Any business firm may be designated a "qualified business firm" for purposes of this chapter if:

1. It (i) begins the operation of a trade or business within an Urban Enterprise Zone, (ii) during the taxable year has at least fifty percent of the gross receipts of such business firm attributable to the active conduct of such trade or business within the Urban Enterprise Zone, and (iii) forty percent or more of the employees employed at the business firm's establishment or establishments located within the

Urban Enterprise Zone meet the criteria set forth in paragraph (i) of subsection B of § 59.1-274 prior to employment; or

2. It (i) is actively engaged in the conduct of a trade or business in an area immediately prior to such an area being designated as an Urban Enterprise Zone, (ii) meets the requirements of (ii) of paragraph 1 of this section, and (iii) increases the average number of full-time employees employed at the business firms's establishment or establishments located within the Urban Enterprise Zone by at least ten percent over the preceding year's employment with no less than forty percent of such increase being employees meeting the criteria of paragraph (i) of subsection B of § 59.1-274 prior to employment.

B. After designation as an enterprise zone, each qualified business firm in such zone shall submit annually to the Department a statement requesting one or more of the tax incentives provided in this Act. Such a statement shall be accompanied by an approved form supplied by the Department and completed by an independent certified public accountant licensed by the Commonwealth which states that the business firm meets the definition of a "qualified business firm." A copy of the statement submitted by each business firm to the Department shall be forwarded to the governing body of the county or city in which the enterprise zone is located.

C. The form referred to in subsection B of this section, prepared by an independent certified public accountant licensed by the Commonwealth, shall be prima facie evidence of the eligibility of a business firm for the purposes of this section.

§ 59.1-280. State business income tax credit.—The Department shall certify annually to the Commissioner of the Department of Taxation, or in the case of public service companies to the Director of Public Service Taxation for the State Corporation Commission, the applicability of the tax credit provided herein for a qualified business firm against any tax due under Article 7.4 of Chapter 4 of Title 58 or against any income tax, franchise tax, gross receipts tax or shares tax due from a public service company, bank, bank and trust company, trust company, insurance company, other than a foreign fire or casualty insurance company, national bank, mutual savings bank, savings and loan association, partnership or sole proprietorship, in an amount equaling eighty percent of the tax due to the Commonwealth for the first tax year; sixty percent of the tax due the Commonwealth for the second tax year; forty percent of the tax due the Commonwealth for the third tax year; and twenty percent of the tax due the Commonwealth for the fourth and fifth tax years. Any tax credit not usable may not be applied to future tax years.

When a partnership is eligible for a tax credit under this section, each partner shall be eligible for the tax credit provided for in this section on his individual income tax in proportion to the amount of income received by that partner from the partnership. Any qualified business firm having taxable income from business activity, both within and without the enterprise zone, shall allocate and apportion its taxable income attributable to the conduct of business in accordance with the procedures contained in §§ 58-151.034 through 58-151.050:3. Tax credits provided for in this section shall only apply to taxable income of a qualified business firm attributable to the conduct of business within the Urban Enterprise Zone.

§ 59.1-281. State unemployment tax credit.—The Department shall certify annually to the Virginia Employment Commission the applicability of the tax credit for qualified business firms against Virginia's unemployment tax due on employees under Article 1 of Chapter 5 of Title 60.1 of the Code of Virginia in an amount equaling: eighty percent of the unemployment tax due to the Commonwealth for the first tax year; sixty percent of the unemployment tax due to the Commonwealth for the second tax year, forty percent of the unemployment tax due to the Commonwealth for the third tax year; and twenty percent of the unemployment tax due to the Commonwealth for the fourth and fifth tax years.

Tax credits provided for in this section shall only apply to the unemployment tax due on employees employed at the qualified business firm's establishment or establishments located within the Urban Enterprise Zone. Any tax credit not usable may not to applied to future tax years.

§ 59.1-282. State sales tax exemptions.—The Department shall certify annually to the Commissioner of Taxation that any qualified business firm is exempt from the payment of taxes for all items purchased for the conduct of its business located within the Urban Enterprise Zone, as required under Chapter 8.1 (§ 58-441.1 et seq.) of Title 58. Such exemption shall extend for a period not to exeed five years.

§ 59.1-283. Local incentives.—In making an application for designation as an Urban Enterprise Zone, the applying locality or localities may propose local tax incentives, including, but not limited to: (i) reduction of permit fees; (ii) reduction of user fees; and (iii) reduction of the business, professional, and occupational license tax. The extent and duration of such incentive proposed in the locality's application proposals shall conform to the requirements of the Constitution of Virginia and the Constitution of the United States. Such application may also contain proposals for regulatory flexibility, including, but not limited to: (1) special zoning districts; (ii) permit process reform; (iii) exemptions from local ordinances; and (iv) other pubic incentives proposed in the locality's application, which shall be binding upon the locality upon designation of the Urban Enterprise Zone.

§ 59.1-284. Termination of Urban Enterprise Zone.—Upon designation of an area as an Urban Enterprise Zone, the proposals for regulatory flexibility, tax incentives and other public incentives specified in this chapter shall be binding upon the local governing body to the extent and for the period of time specified in the application for zone designation. If the local governing body is unable or unwilling to provide the regulatory flexibility, tax incentives or other public incentives as proposed in the application for zone designation, the Urban Enterprise Zone shall terminate. Qualified business firms located in such Urban Enterprise Zone shall be eligible to receive the state tax incentives provided by this Act even though the zone designation has terminated. No business firm may become a qualified business firm after the date of zone termination. The governing body may amend its application with the approval of the Department, provided the governing body proposes an incentive equal to or superior to the unamended application.

2. That if any clause, sentence, paragraph, subdivision, section or part of this act shall be adjudged by any court of competent jurisidiction to be invalid, the judgment shall not affect, impair or invalidate the remainder thereof but shall be confined in its operation to the controversy in which the judgment shall have been rendered.

STATEMENT OF ELEANOR CRAIG, ASSOCIATE PROFESSOR OF ECONOMICS, UNIVERSITY OF DELAWARE, AND CHAIR, DELAWARE ECONOMIC AND FINANCIAL ADVISORY COUNCIL; AND SCOTT M. REZNICK, PUBLIC FINANCE AND ECONOMIC DEVELOPMENT CONSULTANT FOR THE COMMONWEALTH OF PENNSYLVANIA, THE CITY OF PHILADELPHIA, AND THE STATE OF NEW JERSEY

ENTERPRISE ZONES: THE CRITICAL ROLE OF STATE AND LOCAL GOVERNMENTS

Enterprise zones are a coordinated and comprehensive governmental effort to encourage the revitalization of economically distressed areas. They geographically target economic development strategies on small areas evidencing both a significant need for revitalization and a considerable potential for recovery. Enterprise zones also present government officials, particularly those at the state and local levels, with an opportunity to assess and modernize their existing tax, regulatory and business financing policies. They are excellent laboratories for the application of public finance and economic development theory. Innovative policies which lower resource prices can be tried in small geographic areas. The price reductions which effectively generate increases in economic activity can be copied in other areas. Those price adjustments which do not achieve development goals can be dropped.

Areas which are likely to be designated as enterprise zones will have many characteristics that would normally discourage businesses from locating therein; including older, lower quality buildings; infrastructure in poor condition; limited or congested transportation access; high insurance rates; limited numbers of developable sites which also may be small in size and expensive to clear; difficult access to capital markets; and an unskilled indigenous labor force.[1] The worse the economic condition of the designated area, the larger the governmentally created resource price reductions must be to encourage private investment in human and physical capital in zone businesses. That is, comparable price differentials will evoke smaller development gains in those enterprise zones with the worst conditions. A "worst-first" designation policy must be accompanied by larger price incentives if the enterprise zone is to be successful.

The size of governmentally created price reductions must be taken into account as costs to state and local governments. Enterprise zone programs must be cost effective. This is particularly important to fiscally stressed state and local governments. Price reductions must be precisely focused on the type of economic behavior that is desired. If, even with tightly focused incentives, state and local governments have insufficient resources to fully subsidize the desired behavior, additional public cost saving techniques can be utilized. For example, adverse revenue effects can be limited by capping, in dollar or percentage terms, the total tax subsidy benefits available to a particular zone business in any given year; or by creating a sliding scale of incentives that provides declining tax subsidy benefits to zone businesses over a specified number of years. The use of geographic targeting, precisely focused incentives and cost saving techniques can permit government to effectively balance public and private interests in enterprise zone revitalization.

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[1] Jacobs, Susan and Michael Wasylenko, "Government Policy to Stimulate Economic Development: Enterprise Zones," Resources in Review, March 1981.

Successful enterprise zone legislation will use tax, regulatory and public/private business financing tools to stimulate investment in both physical capital and human capital. Investment in physical capital includes the rehabilitation of existing enterprise zone facilities as well as support for the acquisition of new plant and equipment. Investment in human capital requires support for job creation and training.

Investment in physical capital

Initiatives to encourage investment in physical capital in enterprise zones focuses price incentives in an area where the private sector can be very responsive to these relative price differentials.

Taxation.—Effective tax relief can raise the rate of return to any business expansion, even if the firm is operating at a loss. Reductions in property, sales, gross receipts, and franchise taxes all qualify udner this rule, since they must be paid even in profitless years. Reductions in taxes which use net income as a base do not qualify. These reductions only change the cost of doing business in an enterprise zone for businesses with a positive profit position, not the marginal firm or one experiencing losses.

Property tax reductions can effectively be used to stimulate enterprise zone investment. Jane Jacobs makes a strong case for mixed land use patterns,[2] and this argument has a very strong application for enterprise zones. Diversity in age of structures, types of usage, and housing values within a zone all would enhance the development potential of the zone and argue for property tax reductions that are applicable to all uses of property. Large reductions may result in significant revenue loses to local governments. The extent of this loss depends on how close to "worst-first" the delineation of an enterprise zone has been. However, if the choice was truly a "worst-first" decision there will be little revenue loss since the existing firms or buildings would have generated negligible tax returns.[3]

A variety of cost effective property tax subsidies can be tested in the enterprise zone laboratory. Existing abatement programs can be extended to include up to 100 percent of the assessed value of the property as well as the improvements. A sliding scale of abatement, front-loaded into the years immediately following purchase could be used to both minimize the revenue loss and maximize the economic growth benefit of abating the full assessed value of enterprise zone real estate. Site value taxation could be tried in enterprise zones. Local governments can also forgive accrued tax leins on foreclosed property when resold into the private market. Finally, property tax bills could be frozen at current levels for zone real estate. Increases resulting from tax rate hikes or reassessments could be deferred until the real estate is sold rather than completely foregone as a method of limiting the revenue loss that a tax freeze would entail.

Enterprise zones could be designated as sales tax free zones. The price reducing inventive benefits of exempting all retail sales by zone businesses from sales taxation could have a significant stimulative effect on commercial business in enterprise zones. Manufacturers can also derive substantial benefit from a sales tax exemption. The sales taxes of most states already exempt the sale of goods purchased for resale and goods used directly or as ingredients in manufacturing. This exemption can be extended to include all sales to zone businesses. Or, the exemption can include only currently taxable research and development expenses, marketing and administrative costs, and the costs associated with real estate and personal property.

Taxes levied against business gross receipts become taxes levied against business capital in years in which the business does not return a profit. Franchise taxes are also frequently measured against business capital. They can be a significant disincentive to capital accumulation and investment, particularly for new businesses. Targeted enterprise zone tax incentives against gross receipts and franchise taxes could include rate reductions or complete exemptions for zone businesses. An exemption from gross receipts tax liabilities for new businesses can be a very cost effective incentive. This exemption can be limited to the first three years of business operation or until the business shows net income on its income tax returns. Companies benefitting from this exemption could also be permitted a three-year phase-in to full taxation once their period of complete exemption has ended.

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[2] Jacobs, Jane, "The Life and Death of Great American Cities," Random House, New York, 1961.

[3] Gold, Steven, "State Urban Enterprise Zones: A Policy Overview," National Conference of State Legislatures, Denver, Colorado, July 1982.

Investment tax credits against gross receipts and franchise taxes, as well as corporate income taxes for profitable businesses, can also be a cost effective tax tool for stimulating investment. They will be of particular benefit to large, capital intensive industries. Unlike a mere exclusion from business taxes or rate reduction, which permits tax savings to be spent or invested anywhere, tax savings generated by an investment tax credit have already been invested in physical facilities in the zone. Nevertheless, an investment tax credit alone would equally subsidize the construction of a fully-automated warehouse and the plant of a job-intensive manufacturer.[4] Since one of the primary goals of enterprise zone policy is to create new jobs, some percentage of the tax savings created for zone business by the additional investment tax credit should be made dependent upon the number of net new jobs created by the investment. The net new jobs investment tax credit can be made refundable, marketable or can be carried forward. An appropriate complementary policy tool would be investment tax credits for both rental and owner-occupied residential property rehabilitation and construction.

Expensing is a personal income tax subsidy that can be used to stimulate capital accumulation and investment in zone businesses, particularly new businesses. Expensing recognizes that much start-up capital originates in the personal savings of the entrepreneur, his friends and relatives. It provides an investor with an immediate deduction against taxable personal income of up to 100 percent of the investment in a zone business. An additional policy option designed to foster worker ownership would permit a 100 percent deduction when an employee invests in his own company as a shareholder or unsecured creditor.[5]

Exemption from capital gains taxation also provides an income tax subsidy to enterprise zone investment. The mere designation of an enterprise zone may generate significant windfalls. If the zone becomes successful, and property values are enhanced, further capital gains may be experienced. If capital gains are excluded from personal and corporate income taxation, and the enterprise designation is not subject to a sunset provision, the value of all resources in the zone will be bid up by the discounted present value of those tax advantages.[6] If capital gains are only taxable when the investment is removed from the zone, the incentives in favor of zone investments are increased. If the zone does have a termination date, e.g., ten years from designation, the capital gains exemption might be continued for any specific investment until its first public sale.[7]

Regulations.—Economic theory suggests that when there are costly obstacles to doing business, the quantity of economic activity will be decreased. Many of these obstacles are government regulations. For example, zoning requirements which restrict land use to one purpose hinder the positive externalities of residential-commercial-industrial interactions in a zone. It would be relatively inexpensive for local and state governments to remove and reduce the burden of these regulations.

Regulation reform for enterprise zones comes in two forms—procedural streamlining and substantive relief. Streamlining leaves existing regulatory agencies in place, but attempts to simplify and speed-up regulatory implementation. Substantive relief calls for a more fundamental reassessment of the public purposes justifying a particular regulation. Its goal is deregulation and can lead to structural changes for regulatory agencies and standards as well as regulatory procedures. While substantive relief is undoubtedly much needed in state and local regulation, a serious reassessement of existing regulatory structures is, realistically, an ongoing, long-term and politically tortuous process. The most effective role for enterprise zones in this process could be as a test tube in which innovative regulatory models are tried, expanded or discarded. A short-term incentive to zone businesses could involve the waiving of all regulatory fees.

Procedural streamling can be accomplished in enterprise zones through the creation of a regulation clearinghouse, (which may also be used to disseminate tax, service delivery and business financing information) which reduces the cost of acquiring vital business information. Streamlining might also include one-stop shopping which has become increasingly popular for providing access to government's regulatory agencies. An ombudsman can be used to shephard enforcement proceedings through the administrative and judicial review process.

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[4] Butler, Stuart, "Enterprise Zones: Greenlining the Inner Cities," Universe Books, New York, 1981.

[5] U.S. Congress, H.B. 1735, Community Assistance and Revitalization Act of 1983; and H.B. 1955, Enterprise Zone Employment and Economic Development Act of 1983.

[6] Jacobs and Wasylenko, op. cit., p. 3.

[7] Partnerships and proprietorships can experience tax benefits from investment in enterprise zones if the tax credits were eligible against the non-income based business taxes, as well as personal income tax liabilities.

To help foster the accumulation and investment of capital in enterprise zone businesses, substantive review and relief efforts may be targeted on state regulations governing the issuance of debt and equity securities by small businesses, and the requirements on pension portfolios and other conventional lending institutions regarding diversification. The relaxation of local zoning and building code standards in zones would also be of immediate investment significance to zone businesses.

Business financing.—Most state and local governments have a broad range of financing programs to lower the interest rate on fixed-asset loans to businesses. Some involve the direct expenditure of government tax revenue or bond principal. Others rely on Section 103 of the Internal Revenue Code to exempt interest paid on the business loan from income taxation.

Existing public/private financing programs should be coordinated and focused, with specified dollars set aside for zone businesses. Where necessary, they could be extended to include working capital loans, especially to zone businesses creating new jobs. Finally, fees for financing could be waived or reduced.

A new below-market interest rate financing program could also be created specifically for the start-up and venture capital needs for zone businesses. This program could be a revolving loan fund or could issue loan guarantees. To leverage the investment of private capital, this loan fund could be established as a limited partnership in which the government or a quasi-government agency served as the general partner, and private investors became limited partners.

Investment in human capital

Successful enterprise zones not only require lowering the price of capital investment within the zones when compared with other investment opportunities, but must also lower the relative price of investments in human resources. David Birch[8] and others have convincingly documented that the difference between economically declining and expanding areas is not the extent of job loss, but rather the ability of an area to generate new jobs. Further evidence[9] suggests that most new jobs are created by new firms or expansion of old firms, precisely the kind of economic growth enterprise zones are designed to encourage.

The various pending Federal enterprise zone bills all require that zones be located in areas with high unemployment and proverty levels. They also provide extensive tax incentives to stimulate job creation. Indeed, one of the principal goals of enterprise zones is to create new jobs for the disadvantaged and structurally unemployed. These jobs can be in traditional manufacturing operations including the commercialization of high technology research and development breakthroughs, or in service-related industries. They may well be entry level positions but should have meaningful career advancement potential. Eligibility requirements that job creation incentives be available only to zone residents, however, may well be counterproductive. These are cumbersome and difficult to monitor. To be competitive, enterprise zone firms should be able to hire the best qualified workers for their own needs.

Taxation.—In addition to focusing existing spending side job creation, classroom and on-the-job training and retraining programs on enterprise zone businesses, tax deductions or credits could be used to subsidize private efforts. Zone businesses hiring the disadvantaged (individuals who receive welfare or unemployment compensation payments or meet the Job Training Partnership Act eligibility standards) to fill net new jobs can be granted a deduction or credit for some portion of their salaries up to specified limits. This tax subsidy can be a flat rate payment or a percentage of salary. It can be taken against income, gross receipts or franchise taxes. Similarly, enterprise zone business can be exempted from making unemployment and/or workers compensation payments, or can make payments at reduced rates, for qualifying disadvantaged employees. An exemption of this sort can be limited to new businesses for their first three to five years of operation or until they reach profitability.

Job training and retraining are also essential polilcy components of any successful enterprise zone program. Job training generally improves worker and management productivity. A tax deduction or credit for training expenses, while difficult to monitor, could effectively lower the cost of on-the-job training. A similar tax subsidy for the continuing education of management employees could also be tested in enterprise zones.

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[8] Birch, David, "The Job Generation Process," MIT Program on Neighborhood and Regional Change, Cambridge, Massachusetts, 1979.

[9] Armington, Catherine and Marjorie Odle, "Sources of Job Growth—A New Look at the Small Business Role," Commentary, Fall 1982.

In lieu of tax incentives, on-the-job training and retraining expenses may be subsidized through a voucher program targeted on the disadvantaged and structurally unemployed. The employer could be reimbursed for expenses up to a specified annual amount for a limited number of new employees. State and local governments could also focus existing spending on classroom and on-the-job training programs in enterprise zones.

Regulations.—Efforts in the area of regulatory relief to encourage enterprise zone job creation could be designed to open entry level and career opportunities by eliminating or reducing occupational licensing requirements. At the least, license fees can be reduced or eliminated.

Conclusion

Enterprise zones provide the United States with dozens of field laboratories in which state and local governments may experiment with different programs of tax, regulatory, and financing incentives that can be successful in inducing differential levels of economic revitalization and growth. Programs that fail can be forgotten. But programs which sufficiently lower resource prices and induce enterprise zone development can be copied in other economically distressed areas. Enterprise zone innovations can also point the way to successful state- and city-wide economic development initiatives.

STATEMENT OF SCOTT M. REZNICK, J.D., PUBLIC FINANCE AND ECONOMIC DEVELOPMENT CONSULTANT, ON ENTERPRISE ZONES; URBAN ECONOMIC REVITALIZATION AND SMALL BUSINESS DEVELOPMENT

Members of Congress. Ladies and gentlemen. Good morning.

My name is Scott Reznick. I am an attorney and urban political economist. I practice in Philadelphia as a public finance and economic development consultant. Of late, I have been especially active advising state and local governments on the design and implementation of economically effective and politically feasible enterprise zone programs.

I would like to thank you for the opportunity to testify today on urban enterprise zones. More specifically, I have been asked to talk about how to use new tax tools in enterprise zones to help solve the persistent capital shortages faced by new and expanding small businesses. These tax tools include: (1) expensing, to make start-up capital more readily available to new zone businesses; (2) a net new jobs investment tax credit, to insure that capital investment in zone plant and equipment creates new jobs; (3) a windfall capital gains tax, to guarantee that zone businesses and their employees, rather than the current owners of zone property, are the real beneficiaries of zone business incentives; (4) small business job training and retraining credits, or vouchers, to focus limited resources into the most effective environment for learning job skills; and (5) neighborhood assessment, to bring greater efficiency to the deliverty of public services to zone businesses and residents.

In addition, I will briefly describe why state and local governments must take the lead in modernizing their own tax systems. Urban enterprise zones can well serve as a catalyst for the re-evaluation and rationalization of existing state and local tax systems and as a crucible for testing, at geographically, politically and economically limited risk, the means of their essential reform.

For reasons of both efficiency and equity, small businesses should be the primary beneficiaries of enterprise zone tax policies. The freedom of businessmen to enter the marketplace is a necessary condition of an efficient, competitive economy. Free entry eliminates monopoly pricing, enhances worker and management productivity and reduces inflation. Small businesses are also more efficiently innovative. They create twenty-four times more major scientific and technological innovations per research and development dollar than do large corporations. Yet, they account for less than five percent of our economy's R and D effort and received only three and one-half percent of the $30 billion the Federal Government spent on research and development in 1980. Moreover, there is no greater incentive to be productive than knowing that you are working for yourself.

Small businesses have historically provided the lion's share of America's new jobs as well as the economic opportunity of independent ownership to the middle class. Businesses with less than 100 employees create approximately 80 percent of America's new jobs; firms with fewer than 20 employees account for 66 percent. Furthermore, since they suffer few of the inefficiencies of large bureaucracies, small businesses are also the most promising location for government supported on-the-job training and retraining efforts. Similarly, employee participation in firm ownership and management is also more likely to occur in small firms. Employee ownership enhances capital formation, saves jobs in plants which might otherwise be closed, broadens the distribution of wealth and creates new incentives for worker productivity.

And, most importantly, to foster small businesses creation and expansion is to encourage our society's dynamic entrepreneurial spirit, that willingness to take reasonable and informed risks that made our economy great in the first place. It is that "can do attitude," not climate or culture, that separates the Sunbelt from the Frostbelt, America from Japan. To revitalize our older, distressed urban areas, we must tap that entrepreneurial moxy. Large business facilities will be important magnets for economic revitalization in distressed urban areas, we must tap that entrepreneurial moxy. Large business facilities will be important magnets for economic revitalization in distressed urban areas, but it is the daring of small businessmen that will make enterprise zones a success.

The principal problem small businessmen face today is the shortage of investment and working capital. While the cost of financing is high for everyone nowadays, our small business sector suffers from additional structural difficulties in our public/private capital markets. Among these are: the centralization of investment decisions in large financial institutions and the concommitant demise of small banks, the carriers of two-thirds of all small business debt; and the high information costs and aversion to risk that have been the unintended by-product of fifty years of well-intentioned Federal and state regulation. These structural problems contribute to our unprecedented bankruptcy rate. Private sector loans to small businesses are simply too expensive and for new businesses practically unattainable. Public financial assistance is also in jeopardy. Section 103 of the Internal Revenue Code, which exempts the receipt of interest on industrial revenue bonds from Federal income taxation, must be retained, at least for enterprise zone businesses.

Enterprise zones should rely on two related forms of tax reform to stimulate economic development: tax incentives and the elimination of tax disincentives, this latter reform being principally in the province of state and local governments. Tax incentives work by lowering the relative tax burden of specific, desired private sector behavior. Tax disincentives work by identifying and eliminating tax-induced distortions of otherwise efficient private sector behavior. Disincentives are excess tax burdens which raise no revenue for government and yet squander potentially productive private resources. Tax incentive and disincentive reform will not solve the structural difficulties in our capital markets faced by small businesses. Nor will they reduce crime or build new transportation facilities in an inner city neighborhood. These must be attacked also through expenditure and regulatory policy. But, tax incentive and disincentive reform can lower the cost of investing in an enterprise zone business or, indeed, of creating one and with it jobs, economic growth and urban rebirth. They are necessary though not sufficient economic revitalization tools. Their effectiveness will depend upon how completely they compensate zone businesses, either through direct tax savings or through efficiency gains, for both the shortcomings of the capital markets and the higher costs of doing business in a distressed urban area.

As a tool of economic development policy, tax incentives have been accused of a variety of shortcomings. First, they cost government money. To solve this problem, enterprise zone tax policies must be correctly and tightly targeted, geographically, and on their intended beneficiaries. Also, zone areas, by designation, will be producers of little in current revenues to be lost to government. Second, tax incentives, at least those levied against corporate net income, tend to be useless to new business with little or no current taxable income. In the form of credits, however, tax incentives can be made marketable, refundable or can be carried forward into future tax years. They could then, with declining effectiveness, subsidize new businesses without taxable income. Third, once enacted, tax incentives are difficult to get rid of. They develop a vocal constituency. Limiting the life of enterprise zone incentives to twenty-four years is an effective way of solving this problem. Finally, as they proliferate, tax incentives lose their capacity to influence private sector decisions. The more incentives available, the less likely it is that any one of them can effectively accomplish its goal. The proliferation of tax incentives is a problem far broader than urban enterprise zones. It is being addressed by a spectrum of proposals to reform the income tax. One solution, curiously, may be to follow the lead of zones and enact tax incentives of only limited duration.

At the Federal level, enterprise zone tax tools to benefit new and expanding small businesses should include:

Expensing.—This tax expenditure subsidy recognizes that the most common sources of start-up capital to new businesses are the personal savings of the enterpreneur, his friends and relatives and that, moreover, the range of tax incentives drawing individual savings into other, more secure forms of investment is increasing, e.g. Individual Retirement Accounts and All-Saver Certificates. By providing the start-up capital investor with an immediate deduction of up to 100 percent of the monies invested as equity or unsecured debt in a new zone business, expensing "catches up" at-risk new business investment with these and other forms of tax subsidized capital investment. In this regard, expensing is a particularly effective subsidy. By, in effect, returning up to 50 percent of an investor's at-risk capital investment in a new zone busines to the investor as an immediate tax deduction, expensing dramatically reduces the investor's risk of loss while simultaneously increasing his potential percentage yield from his investment. To limit the adverse revenue effects of expensing, the deductible percentage of the investment should be signficantly less than 100 percent. An additional policy option designed to foster worker ownership would permit a 100 percent deduction when an employee invests in his own company as a shareholder or an unsecured creditor. Expensing can be a particularly effective economic revitalization tool. It should be tested in urban enterprise zones.

Net new jobs investment tax credit.—The additional investment tax credit [ITC] proposed in the Regan Administration Enterprise Zone Plan is an effective tool for stimulating investment in new and rehabilitated plant, equipment and housing in enterprise zones. It will be of particular benefit to large, capital intensive industries. Unlike the corporate net income tax exclusion, which permits tax savings to be spent or invested anywhere, tax savings generated by the ITC have already been invested in physical facilities in the zone. Nevertheless, the ITC proposed in the Administration Plan would equally subsidize the construction of a fully-automated warehouse and the plant of a job-intensive manufacturer. Since a primary goal of enterprise zone policy is to create new jobs, some percentage of the tax savings created for zone business by the additional ITC should be made dependent upon the number of net new jobs (or net new jobs for the disadvantaged) created by the investment. Since small business create the most new jobs, they would be the principal beneficiaries of this change in ITC policy. The net new jobs ITC can be made refundable, marketable or can be carried forward. Residential rehabilitation and new construction investment tax credits for both residential rental and owner-occupied property would be an appropriate complementary policy tool.

Windfall capital gains tax.—To insure that the benefits of enterprise zone tax incentives reach their intended beneficiaries, zone businesses and their employees, a windfall capital gains tax should be levied against the first sale of zone property to a zone business. The selling price of property is determined by captializing its future stream of income. An increase in that income stream will increase the property's present value, its selling price. Zone tax incentives increase the future income stream of zone property. Knowing this, current owners will raise their selling price and capture an unintended windfall. A windfall capital gains tax, applied to the first sale of zone property would recapture that windfall. The revenues produced should then be earmarked for expenditure in the zone. Subsequent sales of property already in the zone tax incentive system do not create windfall problems and shoud not be subject to the windfalls tax. They should instead receive a capital gains tax exemption as proposed in both Kemp/Garcia and the Administration Plan.

Job training and retraining credits.—Both Kemp/Garcia and the Administration Plan call for extensive tax incentives to create jobs in enterprise zones. Kemp/Garcia links these credits with job training efforts. Job training and retraining are essential policy components of any enterprise zone program designed to truly benefit inner city residents. Moreover, job training generally improves worker and management productivity, the best solution to stagflation. Indeed, productivity gains are most rapidly stimulated not by new capital facilities but rather by speeding the job learning process. Education is a face-to-face process. Small firms, because they are small, can offer an enviornment especially conductive to on-the-job learning. They are also the sector of our economy that creates the most new jobs and therefore has large new employee training responsibilities. A refundable or marketable tax credit, appropriately targeted on firms with twenty or fewer employees, would effectively lower the cost of small firm job training and retraining. This credit could be linked with the net new jobs ITC or could be administered through a low-cost voucher system.

At the state and local level, enterprise zone tax policies would have to be individually tailored to existing tax systems, systems which tend to be diverse, pervasive and mysterious to the taxpayer. The design and mix of state and local tax instruments is too often a complex morass of conflicting laws created out of the budgetary necessities of moments long in the past. The contemporary economic consequences of these antiquated tax laws is too often unknown. For these reasons of history, state and local government economic development tax reform is now a potentially most fruitful area for policy initiatives to encourage stable, long-term economic growth, to create new jobs and new technologies and to provide adequate revenues for government. These reform efforts, for enterprise zones and generally, should focus on improving the simplicity, certainty, fairness, economy of public and private administration and neturality of state and local taxation. Enterprise zones, as catalyst and crucible, can greatly assist in these essential reform efforts. Conversely, without state and local tax reform, enterprise zones can hardly accomplish their economic revitalization goals. Such, apparently, is the experience in England.

Some state and local taxes are particularly burdensome to new and expanding small businesses. These include taxes now levied against corporate equity and debt, gross volume or gross receipts, and real or personal property. These taxes must be paid even in years when the business has no profits. To the new businessman, they must be paid out of scarce start-up capital. Reducing or eliminating these taxes would increase the cash flow of a zone business and reduce the tax burden imposed on its investment capital.

Additional state and local enterprise zone tax policies might include: the exemption from sales taxation of sales to and from zone businesses; the full utilization by zone businesses of Federal accelerated depreciation, investment and research and development tax credits against state corporate net income taxation; and the reduction of unemployment compensation and workmen's compensation payments. Expensing, the net new jobs investment tax credit, the small business job training and retraining credit and, particularly, the windfall capital gains tax may also be used effectively at the state and local levels.

Neighborhood assessment.—Most cities will offer some form of property tax abatement as an enterprise zone tax incentive. Property tax abatement has been and should continue to be an important stimulus to building construction and rehabilitation. If, however, some of the property tax savings created by abatement were returned to the zone through a small addition to the city's property tax rate and spent on the public goods and services most desired by zone businessmen and residents, then even larger economic revitalization benefits will arise. Everyone in the zone would more closely receive the public goods and services they demand. Efficiency would be served and so would democracy. Moreover, expenditure benefits, like tax savings, add to the value of zone property and thus make it a more desirable investment.

Tax incentives are a necessary, but not sufficient, component of an enterprise zone program, especially one designed primarily to foster small business growth. Complementary regulatory and expenditure policies are also needed. Regulatory relief, particularly from the compliance and private administrative costs borne by new businesses seeking to enter the marketplace, can appreciably reduce the drain on their limited start-up capital. Providing adequate quantities of good quality public goods and services is an essential instrument of economic revitalization. Public infrastructure construction and rehabilitation, crime control and education are important expenditure-side inducements to economic development. Government must also act to create new vehicles for public/private investment risk pooling and information sharing. Finally, the targeting of enterprise zone programs into specific inner city neighborhoods creates a rare opportunity for neighborhood organizations to assume some of the taxing, spending and regulatory functions of government. Restructuring government at the neighborhood and, eventually, the regional levels, can be one of the most important advances produced by the enterprise zone concept.

Enterprise zones are neither a panacea nor are they a complete substitute for existing urban redevelopment programs. They do, however, present Federal, state and local policy makers with an important opportunity to more fully examine their economic development strategies and to create and test innovative policy alternatives. We should proceed cautiously with enterprise zones, and with reasonable expectations. But, I believe, we should proceed with vigor.

STATEMENT OF HON. DON RITTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Chairman, I am pleased to testify on behalf of H.R. 1955, The Enterprise Zone Employment Act of 1983. As a cosponsor of this legislation and a strong supporter of similar legislation in the last two Congresses, I urge your careful and thoughtful consideration of this creative approach to revitalized distressed areas.

While the economic news has been very good in the last few months, there are areas of the country, particularly the heavy manufacturing areas like Pennsylvania's Lehigh Valley, that are lagging behind. H.R. 1955 offers new hope for these areas by forging a new working partnership between the Federal, state and local governments and private industry.

The underlying concept behind enterprise zones is to create an environment in a distressed area conducive to economic revitalization and job creation. This is accomplished through first, providing Federal tax incentives to encourage entrepreneurial activities and second, by relying on the contributions of state and local governments to improve services and provide relief from local taxes and regulations.

The Federal tax incentives provide by H.R. 1955 are, eliminating capital gains taxes on investment within the zones; providing an additional investment tax credit for investment within the zones; extending the excess credit carryback to three years and the excess credit carryforward up to 15 years or the life of the enterprise zone; and insuring that industrial development bonds will continue to be available within zones. The tax incentives to encourage job creation within the zones are, an employee personal income tax credit for wages earned in the zone, an employer credit for hiring disadvantaged workers equal to 50 percent of the worker's wage for three years, and phasing out for the next four years, and an employer credit for 10 percent of the total enteprise zone payroll.

H.R. 1955 would permit the designation, over a three year period, of up to 75 zones in which businesses and their employees would be eligible to receive tax and other benefits for participation in new business activity. For an area to be designated as an enteprise zone certain criteria establishing the area as distressed have to be met and the local and state governments must submit a "Course of Action" which outlines steps they will take to improve the climate for job creation, economic growth, and community development within the zone.

The "Course of Action" may include reduction in state and local tax rates and fees; an increase in the level of local services within the zone; a reduction in the various governmental requirements applying in the zone; and greater involvement of the private sector, neighborhood associations and other groups in the zone program, by actions such as a commitment to provide jobs, training or other forms of assistance to zone employers, employees or residents.

Twenty states have enacted Enterprise Zone legislation. And my own state of Pennsylvania has inaugurated an Enterprise Development Area demonstration program. This program is designed to create and maintain jobs and attract industry and economic developent. The program requires each community to develop a carefully planned self-help strategy.

Using similar criteria as H.R. 1955 for targeting distressed areas, Pennsylvania's Enterprise Development Area program awards grants to the communities for immediate designation or interim designation. Immediate designation provides the community with a grant to be used to implement their self-help plans such as improving sewers, or infrastructire or establishing a revolving loan program for companies interested in expanding or relocating. Interim designation provides the community with a grant to help that community with a preparatory plan identifying ways to improve their economic climate or providing that community with help to assess the local financial ability to help businesses relocate or expand. If an adequate preparatory plan is completed the communities with interim designation will be upgraded to immediate designation. The city of Bethlehem, Pennsylvania, the second largest city in the Congressional District I represent, has been granted an interim designation. This grant will allow Bethlehem to better identify their areas of need and how to attract new business and improve existing business. The city of Bethlehem's participation on the Commonwealth of Pennsylvania's Enterprise Development Area Program is an important first step toward putting the people of the Lehigh Valley back to work. But it is only a first step. H.R. 1955 could to much further toward helping cities like Bethlehem, Pennsylvania revitalize industry and create new jobs and maintain old ones.

This concept of enterprise zones is working in my Congressional District and in many others. If we want to restore and create jobs, if we want to revitalize our declining industries, if we want to improve the economy for the future, creative ideas such as Enterprise Zones have to be considered. I urge you, Mr. Chairman, and my colleagues to take action on H.R. 1955 in the 98th Congress.

STATEMENT OF HENRY G. CISNEROS, MAYOR OF THE CITY OF SAN ANTONIO, TEX.

Let me begin with a statistic that haunts me and that drives the activity of my office:

In San Antonio, approximatley 10 percent of the City's population lives in "pockets of poverty". These areas contribute little to the tax base of their respective localities. In fact, due to deteriorating appearances and high crime rates, they often detract from the community at large. And more significantly for the social well being of our City, these areas are largely populated by female heads of households and minorities. These depressed areas need the help of the Federal Government to attract private sector investments which would: (1) create jobs for the disadvantaged population and (2) aid in the redevelopment or revitalization of depressed areas.

And I know it can work, because it has worked.

In 1976, Vista Verde, an inner city area just west of the Central Business District, was a depressed neighborhood with few jobs, substandard houses, and vacant overgrown lots. In 1979, we attacked it with a plan to revitalize this area. We could not have been successful without a UDAG grant. In 1980, the City cleaned up the area and began negotiations with industrial and commercial representatives to bring new jobs into the area.

Control Data Corporation [CDC] was the first employer to move in. In Phase I, CDC employed approximately 250 individuals, mostly neighbors, many of whom the corporation trained itself. Since that early start, CDC has moved into Phase II, an expansion of their plant which will ultimately employ about 2,000 employees from nearby neighborhoods. Again, many of these workers will be completely trained by CDC. Until Control Data moved in, these "currently productive" citizens were without jobs, without training, without hope. Another potential 2,000 jobs will be created in the area with the completion of a new hotel and commercial complex. Most of the businesses in the commercial complex are small businesses who opted to be located in this revitalized inner city area and who envision expanding as their profitability grows.

In addition to the jobs created in Vista Verde, new housng units will put people back into the area in much improved housing. A total of 43 new single-family units and approximately 130 apartments are being built. Over 300 new privately built, moderate-income units have already been built adjacent to Vista Verde itself since its revitalization started in 1980.

The legislation you are debating today offers cities the opportunity to address the needs of other distressed areas similar to Vista Verde. The powerful incentives inherent in the legislation will challenge the private sector into the partnership with cities that can recreate the Vista Verde experience.

To spur development in the depressed areas, we need the flexibility to offer relief from Federal, state, and local regulations that inhibit the start-up of new commercial and industrial endeavors. We need the ability to offer tax incentives which will make these areas competitive with areas considered to be less risky within the City. We have already passed the State legislation to do just that. So have other states. We are waiting for you to act.

San Antonio has already designated a local enterprise zone. The proposed zone currently is an area of few jobs, high unemployment, poverty, and general distress. The area offers good transportation and is close to one of the City's foreign trade zone sites. The City of San Antonio will enhance the area's potential by: (1) relaxing locally required permits, fees, and building regulations; (2) offering tax abatements for new construction and rehabilitation of existing construction; (3) targeting other funds such as those available through its local development company to the zone.

We are ready to go; as soon as you give us the tools.

STATEMENT OF TOM MCENERY, MAYOR OF THE CITY OF SAN JOSE, CALIF.

Mr. Chairman and Committee Members, the City of San Jose is the largest city in what is known as "Silicon Valley", with a population of some 630,000. While a great deal of industrial and commercial development has occurred over the past ten or fifteen years, very little has occurred in San Jose. Virtually none has occurred in our downtown area.

San Jose fell victim to the same outmigration from the core to the suburbs that struck many other cities beginning some two decades ago. While we were watching high technology boom just beyond our northern boundary, suburban shopping centers sapped the lifeblood from our retail-oriented downtown. While we were not looking at our center city, while we were worried about providing housing and other necessities for the many people who came to our city to live and to work in high technology industries, our downtown—like so many others across this Nation—began to slide. We were shocked when we realized that an area which had been so vital and which had been an asset both socially and economically, had slipped to become a liability while we looked the other way. We were not very proud of what our downtown area had become by 1980, and we set out to re-establish our core area as one of prominence.

We recognize that the large suburban shopping centers which ring our city have erased the retail focus which our downtown once enjoyed. We have realized that we must achieve a balanced mix of uses if our downtown is ever to regain its vitality. We need office development, a competitive convention center with hotels and restaurants; we need housing and retail to support all of this development. We need jobs close to where our citizens live, and we need the sound tax base which healthy businesses and industry can provide.

Some twenty years ago San Jose embarked on an urban renewal program inparts of our downtown which led us to clear large areas of prime leand in our core area. We have met success in attracting private investors to our designated downtown redevelopment areas where Calilfornia's redevelopment mechanism gives us tax resources, with which to make public improvements to improve the marketability of the area. We have had even less success in downtown locations which are outside of our four downtown redevelopment areas. Those few developers who are willing to risk a center city location will almost always choose a site which has public improvements and other amenities before one which does not.

We thought that an enterprise zone approach to this area might be just what the doctor ordered, but we certainly could not wait for a national or state program to address our local needs. So, in 1981, the San Jose City Council established our Central Incentive Zone, an area of roughly five square miles right in the heart of our city. Within this zone reside some 12,000 people. Nearly 15 percent of these people were unemployed at the time of the 1980 census when the city-wide unemployment rate was about 5 percent. Nearly one-third of them have annual incomes below the federal poverty level, and 84 percent of their households have incomes below 80 percent of the city's median income. Most of the area has been certified to be eligible for Urban Development Action Grant [UDAG] assistance as a Pocket of Poverty. There is no question that this is an area of need where economic revitalization, business growth and job creation can really have an impact.

Within our Central Incentive Zone we have developed a package of local incentitives which include the suspension of four major construction-related taxes as well as non-tax incentives such as fast tracked permit processing, a small business assistance program, and eased parking, zoning and environmental requirements. The waived taxes are certainly the biggest of these incentives, and major commercial developers are the greatest beneficiaries—with the waived fees relieving the developer of a 200,000 square foot mid-rise office tower, for example, of the need to pay upfront cash fees of roughly $1,000,000 if he builds within the Central Incentive Zone. In the two years since the Zone was established we estimate that we have waived some $1,400,000 in construction-related taxes—taxes which we could not have collected anyway if development did not occur.

Our Central Incentive Zone is intended to stimulate development in our downtown. The primary goal is the expansion of San Jose's tax base to enable our city to provide quality services for all of its residents in spite of the fact that funds to local government were severely reduced following the passage of our infamous Proposition 13. Spin-off benefits certainly include job creation and business growth, as well as the re-creation of a vital downtown area.

We are seeing development activity within our Central Incentive Zone now—and we saw virtually none before the Zone was created. But we would like to be able to address the need for job creation and business growth and vitality more directly. We have generally not been able to develop any local incentives to do this. We have worked with a non-profit training program for the disadvantaged to centralize its operations in what was an abandoned school within the Zone. Federal funds through the Departments of Commerce (EDA) and Housing and Urban Development (ODBG) have been secured to renovate this building. But we really do not have local control over programs which could offer true job creation incentives--programs which are generally found at the Federal and state levels.

While San Jose did not wait for Federal and state enterprise zone programs—and we're glad we did not, since the processes in both Sacramento and Washington have been lengthy—we still need to balance out our system of incentives and deregulation to re-create a positive climate for busines growth and job creation in our targeted Zone. We are looking to our legislators in Washington and in Sacramento to provide the remainder of what we consider to be the best way to solve a major problem—a comprehensive system of incentives and regulatory relief based on local, state and federal Enterprise Zone programs.

We have reviewed the various Enterprise Zone proposals. Some are more suitable than others. We particularly support H.R. 1955, and believe that the incentives and regulatory relief it would provide will help us rebuild a healthy center city. We look forward to complementing local and Federal targeted zone programs with a state zone program soon after the California Legislature reconvenes. We believe the Enterprise Zone is a concept whose time has come, and we are anxious to provide a positive example of how local, state and Federal programs can be combined to attack very basic needs in our community: the needs for economic health and jobs.

SEARS, ROEBUCK & CO.,
Washington, D.C., December 5, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman,
House of Representatives, House Ways and Means Committee,
Washington, D.C.

DEAR CHAIRMAN ROSTENKOWSKI: On behalf of Sears, Roebuck and Co., I would like to offer these comments for the record of the November 17, 1983 Enterprise Zone hearings.

Sears, Roebuck and Co., headquartered in Chicago, Illinois, has five principal business groups; Sears Merchandise Group, Allstate Insurance Group, Coldwell Banker Real Estate Group, Dean Witter Financial Services Group and Sears World Trade, Inc. The company employs more than 400,000 people world wide and has retail locations in every state. Our sources for goods and services include many small businesses and minority firms.

Sears, Roebuck and Co. supports the concept of establishing enterprise zones to retain and create jobs within the nation's economically depressed areas and to redevelop and revitalize the zone areas. Our nation will be the beneficiary of an improved social and economic climate if the enterprise zone approach is effective.

We recognize that tax and regulatory incentives may be a necessary and proper inducement to encourage small businesses, which are the largest providers of new jobs, to locate within enterprise zones. The establishment of new businesses within a community encourages the residents and the older businesses to remain, and promotes community stability.

The success of enterprise zones would demonstrate a constructive remedy for some of the chronic problems which plague many areas of our nation such as poverty, unemployment and the general deterioration of urban areas.

I respectfully request that these comments be made a part of the record of the enterprise zone hearings.

Sincerely,

RANDOLF H. AIRES,
Vice President, Governmental Affairs.

STATEMENT OF WALLACE D. BARLOW, EXECUTIVE DIRECTOR, SHARE THE WORK COALITION

I am Wallace D. Barlow, Executive Director of the Share the Work Coalition. I am grateful for this opportunity to comment on H.R. 1955, H.R. 1735, and H.R. 2375.

The Coalition opposes all of these bills, for the following reasons:

(1) The tax incentives proposed are hopelessly complex. Seventy-five provinces would be established, each over-regulated and each with different rules.

(2) The grants will depend primarily on the size of the campaign contributions made to the politicians involved.

(3) Each grant will establish an "evil empire", rife with corruption.

(4) The costs will be measured in billions.

The Coalition will continue to support the alternative approach, which is very simple: amend the corporation tax to provide that the tax rates will be inversely proportional to the labor content of the product. The cost would be zero.

Our reasons for supporting a discriminatory corporation tax are as follows:

(1) Labor content, as we define it is "Wages as a Percent of Value Added". It is a fact and cannot be changed by bribery. The only way a corporation could change its tax rate, under our bill, is to change its policy toward automation. If they decide to hire more humans, their labor content would go up and next years tax rates would go down. If they chose to hire robots, their tax rate would go up.

(2) The reason for the intolerable increase in unemployment, hunger, and moral decay is the gross discrimination against the labor-intensive industries which has prevailed in the United States for the last sixty-five years. The industries which chose to automate during that period, were granted liberal tax credits. As a result, the taxpayers paid for the automation that has destroyed all their hopes for a job.

(3) In the socialist Nations, every person is guaranteed a job, free health insurance and an adequate pension. They share the work. Is this an "evil empire"? The Socialist system is clearly inferior to the free enterprise system. However, this aspect of the system has merit. The nations that met at Helsinki accepted the concept of a human right to employment.

(4) The cost to the taxpayer would be zero. The subsidy to the capital-intensive industries would be terminated and they would be required to pay a fair share.

The Coalition has programs at every level of government, including the United Nations. Tariffs, all over the World, would be tilted in favor of the labor-intensive industries. The World Bank and the proposed "National Development" banks, would be required to grant priority to the labor-intensive industries. Our objective is to improve the quality of life on this planet by moderating the rate of automation. We will in this manner control the demand for labor. Discriminatory taxation, as a method for achieving economic objectives, has been in use since 1538. It has always proven to be the least costly method.

FIRST DRAFT OF PROPOSED SENATE AND HOUSE BILL

A Bill to amend the Internal Revenue Code of 1954 to modify the tax on corporations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that Section 11b of part II of subchapter A of chapter I of the Internal Revenue Code of 1954 is amended by deleting "(b) Amount of tax—The amount of the tax imposed by subsection (a) shall be the sum of ———," and by inserting the following new section: (b) Amount of tax—The amount of the tax imposed by subsection (a) shall be inversely proportional to the labor content of the average product of the corporation.

(c) Labor content is defined as "Wages as a percentage of Value Added." [1]

(d) The Secretary of the Treasury is directed to prepared tables based on the present rates of tax, but which will be inversely proportional to the labor content of the average products of each industry as defined by the Standard Industrial Classification.

(e) The Secretary of Commerce is directed to assist the Treasury Department in their updating of the tables from year to year; also by determining the degree of discrimination to be imposed each year. The tilt shall be changed from year to year to hold the rate of unemployment down to three percent of the work force.

[Telegram]

CITY OF TAMPA,
Tampa, Fla., November 10, 1983.

JOHN SALMON, ESQ.,
Chief Counsel, Ways and Means Committee,
House of Representatives, Washington, D.C.

The designation of Tampas Ybor City Historic District as an Enterprise Zone has had an overall positive effect on the economic revitalization of one of the most unique and significant urban historic districts in the Southeast. However, more wide ranging tax incentives, currently being considered by Congress would further assist the economic revitalization of our Enterprise Zone.

Certain economically distressed areas in the State of Florida qualify for the application of Enterprise Zone state legislation. Companies employing workers from distressed areas of the City of Tampa can qualify for a 25 percent state tax credit on the salaries paid to workers. That credit is applied by the company toward state corporate income tax and the maximum that a company can take as a tax credit for each employee is $4,500 per employee. In order to qualify the company must create new jobs and credit would apply only to the newly created jobs.

In the City of Tampa the state Enterprise Zone legislation has been a positive incentive for job creation in distress areas because of the 25 percent tax credit. In the city distressed areas designation includes 26 square miles. Workers within those 26 square miles would be the eligible employees for companies taking advantage of the Enterprise Zone tax credit.

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[1] The term "wages" is broadly defined. It includes all salaries, except for those of top management. It also excludes the income of proprietors.

Private sector investment in the Ybor City Enterprise Zone, since its designation, have totaled approximately $11 million including restaurants employing 125 people and several projects currently under construction. The most prominent of which is high volume winery representing a $2 million investment, and more importantly the introduction of a new industry to the Tampa area.

Other developers and investors have been positively influenced by the Enterprise Zone concept and have decided to locate in Ybor City in anticipation of further state and Federal legislation.

However, the proposed Federal legislation relating to withholding tax credits in corporate income tax would have a much more positive tax impact on jobs stimulation and would complement the state legislation that relates only to state corporate income tax.

BOB MARTINEZ, *Mayor.*

CITY OF TOLEDO, OHIO, *November 22, 1983.*

Hon. DAN ROSTENKOWSKI,
Chairman, House Committee on Ways and Means,
Washington, D.C.

DEAR MR. CHAIRMAN: I am writing to express the strong support of the City of Toledo for federal enterprise zone legislation. I would be grateful if you would include this letter in the record of the hearing you held on November 17th.

Since 1980, the City, local community groups, the private sector and federal and state governments have gained in a unique partnership to redevelop Warren-Sherman, Toledo's most distressed neighborhood. The results have been dramatic—allow me to list briefly some of the more notable accomplishments:

More than $15 million of private funds invested in zone businesses.

More than 300 permanent full-time jobs have been created, most for zone residents.

A training program has been created for 400 people, 100 of whom are employed part-time in the zone.

A 50,000 foot shopping center has been opened.

A small business and technology center is serving as in incubator facility for 24 small companies otherwise lacking the capital or expertise to start-up on their own.

Just as important as the statistics cited here are the intangible benefits being realized through the greatly increased involvement of community groups, especially the Warren-Sherman Community Council, in shaping the destiny of their neighborhood. Community groups are organized to provide services to Warren-Sherman businesses and to help residents cope with the difficulties of living in a still depressed local economy.

Local and state government has held up its side of the partnership in Warren-Sherman. Tax breaks, service improvements, grants and loans have all been used to entice private investment. Although this effort has proven successful, only federal help in the form of enterprise zone legislation can put our ultimate goals for Warren-Sherman in reach.

It is my hope your committee will act quickly in 1984 to move enterprise zone legislation to the House floor. Our experience in Toledo indicates that the following concepts should be embodied in this legislation: designation criteria which truly target zones on the more distressed areas, tax breaks designed to generate up-front capital for small businesses in the zones, a large enough number of zones nationwide to provide a true test of the concept, direct links between enterprise zone incentives and federal grant and loan programs applicable to the zone, and tax incentives designed to encourage contributions to neighborhood groups.

Thank you for taking the first step toward House action on enterprise zone legislation. As the committee begins its deliberations, I stand ready to help bring the benefit of the Toledo experience to bear whenever you feel it may be helpful.

Sincerely,

DONNA OWENS,
Mayor-Elect of Toledo.